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ECONOMIC AND INDUSTRIAL AFFAIRS



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CONTENTS

CZECHOSLOVAKIA

Capital Reproduction in Socialist Economic Strategy Viewed (POLITICKA EKONOMIE, No 10, 1984)	1
Korcak Views 1981-1984 Economic Results (Josef Korcak; RUDE PRAVO, 15 Nov 84)	4
Water Shortage Expected To Take 10 Years To Overcome (Jiri Leschtina; MLADA FRONTA, 21 Nov 84)	7

GERMAN DEMOCRATIC REPUBLIC

Central Economic Role of Enhanced Fuel, Raw Material Refining (Michael Buechner; WIRTSCHAFTS WISSENSCHAFT, No 9, Sep 84)	9
Briefs	
Nicaragua Textile Cooperation	25
Angolan Labor Minister	25
Aid to Angola	25
Farm Group Praised for Production	25

HUNGARY

Changes in Agricultural Price, Financial Regulators Published (MAGYAR MEZOGAZDASAG, No 44, 31 Oct 84)	26
Competitiveness of Hungarian Agriculture Debated (Erzsebet Lazar; KOZGAZDASAGI SZEMLE, No 10, Oct 84)	30
Guidance Mechanism of Enterprises Viewed (Vilmos Saghy; KOZGAZDASAGI SZEMLE, No 10, Oct 84)	46
Producers View Problems With Telephone Network (Tamas Kolossa; MUSZAKI ELET, No 20, 27 Sep 84)	65

YUGOSLAVIA

Reorganization, Larger Role Seen for Economic Chamber (BORBA, 15 Nov 84)	69
Assembly Chamber Discusses Law on Foreign Investments (TANJUG, 27 Nov 84)	71
Briefs	
Aid to Underdeveloped	73
Electric Power Production	73
Bosnian Nuclear Power Plant	73
Opposition to OOURs	74

CAPITAL REPRODUCTION IN SOCIALIST ECONOMIC STRATEGY VIEWED

Prague POLITICKA EKONOMIE in Czech No 10, 1984 pp 1030-1032

[Text] The transition to predominantly intensive economic development is changing the sequence of importance of the main factors which determine economic growth rates. The main factor, which accelerated growth rates in the period of industrialization with freely accessible labour power and easily available raw material and energy resources, was the investment rate (productive accumulation). The opportunity to concentrate accumulation sources from other areas of the economy into industry — and into its nucleus of heavy industry — formed a dynamic factor of economic growth in this period, when the investment sector and its raw material basis developed most rapidly.

In Czechoslovakia the rate of total, as well as productive investments more than doubled in the post-war period; double figures were achieved already at the end of the fifties and beginning of the sixties. If in the base year (1948) the share of total investments in gross national income (including depreciation of fixed assets) was less than one sixth and the share of productive investments equal to one tenth, then at the end of the seventies and beginning of the eighties the relevant figures were one third and more than one fifth.

Rates of growth of the social product and especially of industrial output were exceptionally high in the first period of socialist construction. However, "production turnover" of industrial output grew at the same time, both in terms of raw materials, the material and energy industries and in industries producing final investments. Net national income growth and especially the development of non-productive consumption were slower than the growth of the gross social product. The highest rates of growth were found in the production of the means of production; their maximum average annual rate of growth in Czechoslovakia achieved 9% in the fifties; within this group, the production of work implements 13%. The rate of growth of consumer goods was the slowest (6% annually).

In spite of the fact that in the decade 1966–1975 growth rates of industrial output, especially in group A, markedly decreased in Czechoslovakia in comparison to the first post-war period, the rate of growth of national income did not decrease due to the greater efficiency per unit of the means of production. During the first post-war period, a 1.8% increment of industrial production in group A was required to achieve a 1% increase in national income, but in the second period this figure was only 1.1%. A 6% national income growth rate was maintained also during a stabilized or only very slow rate of growth of productive investments. From this point of view, specific indications of the intensification of the reproduction process made their appearance since the middle of the sixties. (Analogical trends in changed proportions have been calculated for the economy of the USSR by A. I. Notkin).

In the second half of the seventies, especially in connection with dealing with the energy problem, it was necessary to transfer the means of production into industries with high investment demands — fuel mining, the building of nuclear power plants and nuclear engineering. In connection with these structural transfers the investment intensity of national income increments grew rapidly. The ratio of increments of industrial output in group A per unit of national income grew again to 1.3.

Regardless of the cited fluctuations, an analysis of this development, as well as international comparisons make it possible to derive long-term trends in the changes of national economic proportions after an integrated basis of heavy industry and the investment sector have been built. In contrast to the period of industrialization, during subsequent stages the rates of growth of individual groups and sub-groups of social production tend to approach each other. During the period of completing the productive structure and finishing its various sections, a transfer from production in group I for group I to production in group I for group II took place, as well as transfers directly to group II, from material production towards a preference for the services sector, from the satisfaction of material needs towards an increase in leisure time. These

changes are connected with structural transfers in satisfying the requirements of the population. In individual countries they are moreover modified by foreign trade.

These long-term trends, typical for countries with a specific level of productive forces and a high productivity of labour, under conditions of building a developed socialist society have their specific aspects, determined by the objectives of the comprehensive development of the human personality. Some limits may temporarily act against them as the result of bottlenecks in the reproduction process (for instance solving the already mentioned energy problem). The strength of these trends also depends on the nature of scientific and technological development which is implemented, especially its capital intensity which requires a specific accumulation of resources in the initial period.

Owing to this characteristic of the determining factors and general type of economic growth in the industrialization period it can be adequately reflected in economic theory by a type of model such as that created by the Polish economist M. Kalecki. In this type of model, as is well known, the rate of growth of national income (r) is derived above all from the share of productive investments in national income ($\frac{I}{D}$).

An increase in the share of productive investments directly implies an increase in national income.

Increasing the volume of investments and concentrating them into heavy industry, under conditions of a planned economy, became possible due to the economic policy of central accumulation of resources and their central distribution into investment limits for the productive sphere, together with the regulated growth of incomes of the population and the non-productive sphere in general.

Growing investment intensity of national income increments in the majority of the socialist countries since the middle of the sixties, increasing numbers of unstaffed workplaces at new fixed assets and the price which must be paid for accelerated economic growth by unviably limiting the growth of consumption on the part of the population, as well as a loss of equilibrium in the economy in general, together indicate the impossibility of continuing the pursual of such a policy in the subsequent period. To this should be added the advancing depletion of unreproducible raw material and energy resources.

Thus, retrospectively, the fact that the European socialist countries set upon a course for the intensification of their national economies already during the sixties and seventies appears to be an objective and necessary development.

If we attempt to describe the type of economic growth in the stage of predominantly intensive economic development, then we see that above all the determining factor of growth changes. It is not the volume or rate of investments that is important, but rather their efficiency and generally their final utility effect in satisfying the requirements of society in relation to a unit of invested material and labour resources; or to put it more briefly, the unit efficiency of resources in the broad sense of the term (including equilibrium in the structure of requirements and resources). This concerns above all growth in the effectiveness of limited resources (energy, some raw materials), which makes it possible to overcome bottlenecks and to better utilize other, less limited resources. The model we seek for the limiting factor of energy might have the following form:

$$r = \frac{\Delta D}{D} = \frac{\Delta \epsilon}{\epsilon} + \frac{\Delta E}{E},$$

where D = national income, $\epsilon = \frac{D}{E}$ and E = energy inputs.

Under such conditions the rate of growth of national income depends above all on how successful the economy is in increasing energy effectiveness and/or the effectiveness of other limiting resources.

In Czechoslovakia some research analyses have produced findings according to which energy intensity will in the next decade decrease by 2.5% annually at the most, while increments in energy sources will represent a maximum of 0.5% annually; from this follows a maximum 3% growth rate of national income. Exceeding this maximum growth rate would be possible only under the assumption that the rate of decreasing energy intensity would exceed 2.5% annually.

The transition to intensive development requires basic structural changes in the reproduction process,

in production and consumption, a higher degree of finalization, improvements in the technical quality of production and different trends in satisfying the requirements of the population (away from food towards manufactured consumer goods and services and towards extending leisure time). A necessary pre-condition for this presents the adaption of the economic and social mechanism towards the more rapid absorption of scientific and technological progress in production and strengthening the principle of remuneration according to merit, in accord with new criteria which will stress qualitative aspects.

A strategy for increasing efficiency must take into account the mutual conditionality of growth dynamics and the proportionality and efficiency of economic development. On the one hand, if economic growth is to be predominantly based on increasing the national economic efficiency of resources, then this cannot be achieved without overcoming disproportions and disequilibrium in the process of reproduction. But on the other hand one of the prerequisites for renewing a balanced state forms the differentiated increase in the efficiency of production, at first above all by calling up reserves in the utilization of economic potential. Overcoming bottlenecks in the productive sphere will then make it possible to better utilize other productive factors and hence more markedly improve total national economic efficiency and assure a warranted rate of growth.

Since overcoming the deficit aspects of the economy is undisputably linked to the implementation of a final socio-economic objective, combined with improving the quality of the living standard and its feedback relationship with material incentives and the growth of production, the achievement of economic equilibrium on the consumer market and the balanced development of the living standard are considered to be among the basic prerequisites for fulfilling other objectives of economic strategy. The social conditionality of economic growth strengthens.

An economic strategy for the eighties will be successfully implemented if a combination of conceptual measures of the central planning agency concerning its main innovation programs, the new profile-forming structure of the economy within the international division of labour, as well as the purposeful creation of a required hinterland in the lower segments of the economy, based on the provision of suitable incentives aimed towards the comprehensive intensification of production are all put into effect. A re-orientation of the economy towards new conditions should then open the way again to accelerated rates of economic growth.

It is evident that the exceptionally rapid rates of growth achieved in the period of industrialization, which were based on a low economic level, cannot be repeated. It should, however, be possible in the future to strive, as an outside figure, for higher rates of growth (in the range of 4 to 5 %), which in Czechoslovakia and other socialist countries in the decade between 1966 and 1975 were achieved as minimum figures. The outlooks for further economic development depend upon how successful we shall be in preparing the more extensive modernization of the economy, deeper structural changes and the reconstruction of the economic mechanism which would make it possible to more fully utilize qualitative forms of intensification, i. e. above all scientific and technological development and social factors, which will increase the production capability of resources and their ability to satisfy requirements.

CSO: 2400/137

KORCAK VIEWS 1981-1984 ECONOMIC RESULTS

AU201225 Prague RUDE PRAVO in Czech 15 Nov 84 p 3

[Article by Josef Korcak, member of the Presidium of the CPCZ Central Committee and Premier of the Czech Socialist Republic: "Following the Path of the 16th CPCZ Congress in the Interest of the Development of the Czech Socialist Republic"]

[Excerpts] In a few weeks we will be entering the last year of the Seventh 5-Year Plan. Let us consider the results of the first 4 years and our future prospects.

We are gradually overcoming the discrepancy between the demand for raw materials and energy and the realistic possibilities as regards ensuring the needs of the production sector. Exports of a considerable part of the production of our enterprises are used to pay for the imports we need, especially new materials. In the sectors managed by the Czech Government that constitutes almost half of the exports of the entire federation.

There exist quite a few problems and the possibilities of resolving them are limited. We realize their importance and openly inform the public about them. But we are capable of resolving them only gradually, in proportion with the resources we create, in harmony with the volume of the national income.

The successful fulfillment of the plan in the majority of industrial sectors shows that the planned growth rate of the national income in the 1981-84 period will be exceeded. In the Czech Socialist Republic [CSR] gross industrial production will have increased by 9 percent in these 4 years, which includes a 10.5-percent increase in federally-managed industry and a 7.4-percent increase in the industry managed by the Czech Government. In agriculture, where the shortfalls of the beginning of the quinquennium have been successfully made up in the last 2 years, the tasks in plant and animal production will be exceeded. Gross agricultural production will have increased by 8.2 percent in 4 years, and grain crops by 11.9 percent. In harmony with greater created resources, personal consumption will rise by more than 2 percent and material social consumption by 15.5 percent. This development is more favorable than we expected at the beginning of the 5-year plan.

We are concluding work on the preparation of the plan for the development of the CSR national economy for 1985. We are expecting a 2.9-percent growth in the national income, and that almost exclusively through intensification and

greater economic efficiency. Work productivity from the adjusted value added is to increase roughly by 3.7 percent in the sectors managed by the CSR Government.

The construction sector is undergoing a period of adjustment to the changed requirements. We are succeeding in overcoming its lag behind the current needs. Housing construction is, on the whole, successful, a number of vital capital construction projects have been ensured within the deadlines and can stand comparison with world parameters. Our builders are also successful abroad.

We cannot raise the standard of our economy without building nuclear power plants, mines, and industrial and agricultural projects. We also cannot do without comprehensive housing construction. The state of the housing and nonhousing fund represents a warning and a solution must not be postponed. The construction sector must brace itself for structural changes so that it can ensure new projects, reconstruction, and maintenance all at the same time.

This year we have filled the granaries in the CSR with the biggest harvest in our history--with 7.9 million metric tons of grain, more than 4.6 metric tons per hectare. Compared with the past, these are high yields. But this does not mean, however, that our possibilities have been exhausted.

The results in potatoes and sugar beets are less favorable than in grain. Despite the fact that this year's harvest is fairly good, we cannot be satisfied, especially with the quality and great losses during gathering. There has been certain progress in animal production, although more than once at the price of high costs and disproportional fodder consumption.

The CSR is a fairly small territory with a high population density, with many power plants and mines, with intensive agriculture and a dense transportation network. All this has a negative impact on the purity of air and water, on the quality of the soil, on the serviceable life of buildings and installations, and on the health of the populace. We must take into account it will cost us great resources to ensure the necessary quality of the environment.

In the Programmatic Statement of July 1981, the Czech Government reemphasized that it regards the creation and the safeguarding of the environment as one of the most complex and important social tasks. It is paying particular attention to the areas most threatened--to Prague, and the North Bohemian and North Moravian regions. Discussing the concepts for the development of individual sectors, we are also devoting attention to resolving their influence on environment. With the newly built enterprises, the stipulated norms will be strictly adhered to.

We do not always have adequate financial resources and capacities to improve the environment more rapidly, and in some cases reliable technologies are also lacking.

Also the lack of discipline of some responsible officials is a cause of concern. Investors--in the industrial, agricultural, and other spheres of construction--can expect neither exceptions from the regulations that are in force nor

benevolence as regards indiscipline. We have already embarked on such a determined course in the sector of the water economy, and will proceed likewise in all other sectors.

Last June we submitted to the Czech National Council a report about the situation in our health services. It is a very sensitive sphere. The positive thing is that the work of district and factory physicians has improved, and that certain progress has been achieved as regards supplies of medicines. In certain branches our specialists are world renowned. Our pharmaceutical industry is dynamically developing and manufactures some particularly effective medicines. But we do not close our eyes to shortcomings. An example of an active approach to overcoming them are the recently adopted decisions about improving the capital goods base of the Prague health services and the further development of West Bohemian spas.

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WATER SHORTAGE EXPECTED TO TAKE 10 YEARS TO OVERCOME

AU231919 Prague MLADA FRONTA in Czech 21 Nov 84 p 2

[Commentary by Jiri Leschtina: "Water! Water!"]

[Excerpts] When, years ago, water economy officials warned about the depletion of our water reserves, many dismissed them as pessimists. Now, after only 2 years of drought, last year's supply of water to Ostrava, for example, was saved only by the melting snow in the mountains. Any failure to take this warning seriously would border on hazard.

A total of 1.1 billion cubic meters of drinking water was produced in the Czech Socialist Republic last year, twice as much as in 1970. Over the same period, the water main network expanded [word indistinct] of new apartments and modernization of old apartments, and the average consumption of water per capita per day increased from 290 to 400 liters. Yet this steadily growing consumption of the population is not accompanied by the necessary expansion of resources. Whereas in the Fifth 5-Year Plan [1971-1975], the capacity of water reservoirs increased by 300 million cubic meters, in the current 5-year plan the increase will be only 28 million cubic meters. If we add to this the deteriorating quality of water in rivers, pollution caused by industrial fertilizers, the aforementioned droughts, and--last but not least--ecological calamities, we cannot be surprised that many parts of the [Czech] Republic--such as the Ostrava and Plzen areas, the surroundings of Brno, or the North Bohemia brown coal basin--have an adverse drinking water balance.

In view of the fact that underground resources have been virtually depleted, we will have to concentrate mainly on the treatment of surface resources. But this will require the construction of additional reservoirs and of new water treatment plants, which--according to latest estimates--will take approximately 10 years. This period will have to be bridged by as rational and as economical a regulation of consumption as possible.

Some 24 percent of drinking water disappears from the underground public mains even before it reaches the customer and an additional 20 percent gets lost because of poorly insulated and executed plumbing in the houses themselves. It is the responsibility of those maintaining the housing stock to make operational checks on fixtures and to gradually replace old, inadequate pipes by superior materials.

A more detailed look at various spheres of our life would undoubtedly reveal an inexhaustible number of suggestions for reducing water consumption. We must begin to handle this precious liquid more economically without delay--at the workplaces as well as in all households. We must not wait for the moment when we will grudgingly complain: "It has stopped flowing again!"

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CENTRAL ECONOMIC ROLE OF ENHANCED FUEL, RAW MATERIAL REFINING

East Berlin WIRTSCHAFTS WISSENSCHAFT in German Vol 32 No 9, Sep 84 pp 1315-1329

[Article by Michael Buechner, doctor of economics, scientific assistant at the Institute for Political Economy of Socialism, Academy of Social Sciences, with the SED Central Committee and Heinz Willems, certified attorney, candidate at the same institute with the SED Central Committee. Original title: "On Some Issues of Enhanced Refining of Energy Sources, Raw Materials and Processed Materials Under Conditions of Intensively Expanded Reproduction"]

[Text] The most important economic experiences of recent years include the understanding "that we are able over a prolonged period of time to increase production and national income and, in doing so, achieve absolute reduction in the consumption of energy, raw materials and processed materials," as Erich Honecker stressed at the Seventh SED Central Committee Plenum.¹ The theoretical generalization of this experience is undoubtedly of great value for the further successful implementation of the economic strategy, for the shift of the socialist planned economy to the comprehensive intensification of the social reproduction process.

Enhanced refining of energy sources, raw materials and processed materials belong to the economic processes which deserve a more profound economic analysis in this connection. Refining is the decisive way necessary for the continuation of the policy of the main task and to guarantee the safeguarding of peace. The domestic and foreign conditions for the further shaping of the developed socialist society in the GDR are the cause for developing refining of the energy sources, raw materials and processed materials into a determining essential feature of the further development of the GDR economy.

For the political economy the task arises to carefully study the correlation between enhanced refining and the intensively expanded reproduction and to develop the conditions and prerequisites for a higher economic effectiveness of the refining processes in the economy. In this connection, proposals are to be made directed toward further perfecting of management, planning and business-type accounting. In the following remarks some ideas are presented on this subject which are especially designed to stimulate further discussions on this important set of problems.

On the Role of Enhanced Refining in the Process of Intensification of Social Production

One of the central concerns of the economic strategy for the 80's adopted by the Tenth SED Congress is the enhanced refining of the energy sources, raw materials, and processed materials. "From every kilogram of raw material as many high-grade products as in any way possible must be produced by qualified work. That is the way we are going to achieve a higher stage of refining for the production of our economy."²

This economic policy orientation toward enhanced refining is directly derived from the objective requirements of the intensively expanded reproduction, especially because refining is the decisive alternative to further extensive expansion of the economic output of energy sources, raw materials and processed materials. The measures instituted in this connection for comprehensive development and application of microelectronics, for further development of brown coal refining, for expansion of the refining metallurgy, for development of permanent finishing in the chemical industry, and others are directly aimed at ensuring continuous growth of production and of the national income with the available raw material output. Thus important material conditions are created to achieve sweeping improvements in the ratio of cost and yield in the entire economy.

In determining the contents of the refining, which at the same time characterizes its effect on economic progress, one should start from the assumption that, in principle, "refining" of the raw materials and processed materials takes place in every production process of material utility values. In the work process, the work object is transformed into a product that possesses a higher utility value than the initial material and in this manner is "refined" by human labor. Marx described the "refining process" of the work objects as follows: Cotton becomes yarn, yarn becomes fabric, the fabric is printed or dyed until finally a garment is produced from it. He came to the conclusion that "1. the substance of the cotton was preserved in all these forms" and "2. In all these subsequent processes cotton has received a more useful form, because it is made more suitable for consumption; until finally it gets the form wherein it can become directly an object of consumption, where, in other words, consumption of the substance and neutralization of its form becomes human enjoyment, its change is its use itself."³

In the enhanced refining in material production--and only that can be the object of the considerations here--what is especially involved is to produce a qualitatively better and quantitatively greater final product for the economy from the available energy sources, raw materials and processed materials. Thus refining is an important criterion of effectiveness of the production,⁴ which comprises all economic effects connected with the transformation of the work objects into material utility values--from raw material production to the economic final product. In this connection, depending upon the demands of production and the potentials of science and technology, the qualitative and quantitative factors of production growth can be differently developed in the various refining processes.

Viewed in that light, enhanced refining does not constitute a basically new element in the development of productive strength considering the fact that scientific-technical progress generally is very closely linked with progress in refining.

Under the conditions of a primarily extensive economic development based on greater use of raw materials and fuels, refining played only a subordinate role; it was concentrated primarily on overcoming the economic limitation for individual sources of raw material in relation to the demands of production growth. The main efforts in the development of the economic energy and raw material base, in line with the constantly increasing demand, were directed in the first place toward expansion of the production scales for energy sources, raw materials, and processed materials.

With the comprehensive change to the intensively expanded reproduction, enhanced refining becomes a basic feature of economic development, a determining growth factor. This is especially linked to four factors:

1. Since the growth of the production can hardly continue to be based on further additional use of energy sources, raw materials and processed materials, the quality of the used work objects must increasingly become a determining foundation for the increase in output. Marx, too, when he explained the role of refining for the economy of objectified labor, pointed out that the production results are significantly influenced not only by the quantity but also by the quality of the used work objects. "The circumstances that constantly reduce the costs of capital also include refining of raw materials. For example, it is not possible to produce the same quantity of twist in the same time from good cotton as from bad cotton."⁵

Especially the following emerges therefrom for the characterization of refining as a factor of intensification: On the one hand, refining may have a consumption-reducing effect on the quantity of the energy sources, raw materials and processed materials used in production. Thus the use of higher tensile-strength weldable construction steels--with full utilization of the material characteristics--makes possible mass material savings of 10 to 35 percent in machine, installation, and vehicle building. On the other hand, it may have a quality and utility-value-raising effect on the production results. Highly finished materials open up far-reaching possibilities for fundamental changes of the technical-technological functioning and production principles and thus for the production of products with completely novel performance characteristics. But they also make possible significant improvements of the technical-economic parameters of many traditional products, for example an improved mass-performance ratio, higher functional reliability, longer durability, and greater capacity to resist wear and tear.

2. Comprehensive development and use of the domestic raw material potential, which also includes secondary raw materials and by-products, has become a main source of the increase of the economic output. What is involved here is undoubtedly a very long-term process of importance in principle, namely from the aspect of planned proportional development of the economy, especially in view of the stepped-up international class clash, as well as

concerning the solution of global problems of mankind. Thus the purposeful increase in the share of domestic brown coal in the primary energy source structure to now over 70 percent--despite increasing worsening of the natural mining conditions--provides a long-term stable and effective reproduction base for the GDR economy. At the same time it constitutes a reaction to the internationally changed energy situation, corresponding to the structural change in the energy base occurring worldwide.

From the share of the GDR's own output of raw materials and processed materials that is high in terms of quantity (roughly nine-tenths) but relatively low in terms of value (barely two-fifths) in meeting the demand of the economy (not including agriculture), it is evident that greater utilization of the domestic raw material potential in many cases is predicated on significant progress in refining.

The process of fuel oil replacement in the GDR economy makes it clear that in a whole series of technological processes direct substitution by domestic crude brown coal is objectively not possible because crude brown coal possesses a lower calorific value than fuel oil. Therefore, to replace fuel oil in many cases refined brown coal products are used, e.g., electric energy, brown-coal high temperature coke or synthesis gas. But the example of fuel oil replacement also shows that use of more highly refined raw materials and materials can be abandoned wherever technology and quality of the production do not absolutely demand it.

In the purposeful replacement of imported raw materials and processed materials by domestic ones, lasting solutions are achieved especially if the entire product assortment is better adapted to the national raw material conditions and if in doing so a higher technical-economic level of production is achieved at the same time. Therefore, it is important to consistently combine the search for replacement of raw-material and processed material imports with the replacement of production by systematically exploiting the technical-technological characteristics of the domestic raw materials and processed materials, including secondary raw materials and waste products, and utilizing them for increasing the output.

Not rarely is this linked with going beyond the traditional fields of application of these materials, such as in machine tool building by using reinforced concrete for framework units. From the necessity of having to save cast steel and rolled steel, not only the material assortment of machine-tool building was expanded but the specific material-technical parameters of reinforced concrete--such as slight heat expansions--were simultaneously used for significant improvements of the utility value of the machine tool.

3. Raising the quality and saving materials must consistently be connected with one another. Saving material at the expense of the required quality, or quality improvements at the expense of increasing material consumption contradict not only the performance and effectiveness requirements of the intensively expanded reproduction, they are also unused performance and effectiveness potentials of modern engineering and technology.

By the enhanced refining, economic effects are increasingly achieved in two directions--for one thing by an improvement of the use features of the products and for the other by a reduction of material and energy consumption per product. Refining, Guenter Mittag stressed at the seminar of the SED Central Committee with the general directors of the combines and the party organizations of the SED Central Committee in March 1983 in Leipzig, "is...the decisive path to higher quality and greater effectiveness. Wherever the solution of this task was approached from this basic attitude, corresponding results are being achieved, a decisive saving of energy and material as well as a significant improvement of the utility value and quality of the products and a greater economic yield."⁶

When enhanced refining in its effect goes beyond the effects of "traditional" material-economic measures, such as material and energy consumption norms, reduction of rejects and losses, efficient pattern, etc., this does not indicate by any means that measures of this kind will have hardly any influence in the future. On the contrary, their importance will grow to the extent that new materials with higher values will be used in production.

The complexity of linking the raising of quality and reduction of material consumption consists in the fact that different reproduction processes of the work objects are being affected--saving of material is a factor of the expenditure of work objects, however enhancement of quality is a factor of the transformation of the work objects, whereby contradictory developments may happen. Improvement of quality frequently demands an expansion of the production process in the direction of higher processing stages, which may then especially entail a technology-related increase of the material losses and of energy consumption if an increase in the number of the individual production stages occurs. And occasionally it happens the other way around, namely that material savings may lead to quality losses, to a reduced efficiency and reliability and to a reduced service life, which, in final analysis, may lead not to saving of material but to use of additional material.

To resolve this contradiction necessitates especially constant renewal of the products and production technologies with broadest use and application of micro-electronics, modern computer technology, new construction materials and other basic directions of scientific-technical progress.

The distinct improvement of the degree of refining of the products and the constant renewal of the production more and more form an indissoluble unit: The technical and technological innovations developed by the scientific-technical revolution are distinguished on the one hand by the fact that they are able to cancel out the contrasting development of material use and quality and thus make possible qualitative changes in the product generations with fundamental improvements of the degree of refining. On the other hand, there can be hardly any truly progressive renewal of production which is not also directed toward the development of the highest refining effects concerning the performance characteristics of the products as well as also concerning material and energy consumption. The further development of output and effectiveness in the economy will be largely determined by the manner in which it will be possible to achieve the enhanced refining and constant renewal of the production as a uniform process on an ever higher ladder.

4. The significantly increased and further rising reproduction costs for energy sources, raw materials and processed materials necessitate very far-reaching changes in the structure of reproduction. It is especially important to decisively weaken or completely eliminate the reproduction effects connected with the cost increases which in fact counteract intensification. The decisive importance of the enhanced refining in this connection becomes evident if one considers that in the same ratio as the degree of refining grows, the influence of rising raw material and processed material prices on the development of the prime costs of the products declines.

For example, if the share of the primary material costs in the prime costs amounts to 50 percent, then tripling of the material prices--under otherwise unchanged conditions--would result in doubling the prime costs; but if the share is only 20 percent, then the prime costs of the product in case of the tripling of the material prices--under otherwise identical conditions--would rise only to 140 percent.

Obviously this connection between the degree of refining of the products and the effects of rising material prices on production costs gain increasingly greater importance for the growth of net production and the earning of profits in the combines.

All this makes it evident that the enhanced refining with comprehensive intensification of the economic reproduction process does not form any special reproduction form of the funds, equivalent to others, of energy sources, raw materials and processed materials, but is directed toward essential qualitative changes in their reproduction; toward a reproduction that makes possible economic growth by qualitative perfecting and better utilization of the raw material and other material resources included in the economic cycle. Therefore, the enhanced refining must decisively contribute to developing simple reproduction of the production resources to the source of the expanded reproduction of the social product. That is to say, the characteristic features of refining in the intensively expanded reproduction are directly derived from the changed relations between simple and expanded reproduction based on this type of reproduction.⁷

This economic change of function of simple reproduction for economic growth is expressed in the reproduction of the basic assets in a growing shift of emphasis from simple replacement to comprehensive modernization; in the reproduction of the production resources of energy sources, raw materials and processed materials, this change in function increasingly takes place by means of shift of emphasis from simple replacement to enhanced refining.

Concerning the Changes in the Ratio of Human and Objectified Labor

With the transition to a new, enhanced level of refining in the GDR economy, trends are starting to prevail in the reproduction process that hardly occurred during the entire course of the past industrial development. This applies especially to the development proportions of national income and production consumption. Reduction of the share of production consumption in the total social product has developed into an important source of growth of the national income

in the GDR during the past 2 years. In 1980, the share of the reduction of production consumption in the growth of the national income amounted to 6 percent, but in the years 1981 and 1982 combined the reduction was already 44 percent, i.e. almost half of the growth of the national income in these two years was achieved by reduction of production consumption. In his closing speech to the 1983 Economics Conference, H. Koziolok thus stressed the progress of understanding linked therewith in the political economy, according to which "the growth of production consumption is no law to which the socialist economy is automatically exposed."⁸

As long as the development of productivity is based on the quantitatively additional use of raw materials and processed materials, the relative extent of the raw material or processed material value in the value of the products tends to increase, as Marx proved.⁹ As a result, the value proportions of the total social product change in favor of production consumption. This development can only be reversed if the weight of the human labor forming new values is increased in the value-forming process and an enhanced value product per unit of raw-material or processed material expenditure is produced, which is inseparably connected with the enhanced refining of the energy sources, raw materials and processed materials.

Therefore, it is a concern of the economic refining program adopted by the Tenth SED Congress to create an additional new value by comprehensive utilization of the value-enhancing potential of qualified work in production and thus to obtain a growing net production and a greater national income per raw material and processed material unit. This raises a series of complex questions of value formation and achievement that must be researched even more thoroughly in the political economy.

In forming an additional new value, apparently it does not suffice simply to add a greater amount of social work to the raw materials and processed materials to be able to assess a higher price for the products. What is essential is that the greater expenditure of labor is also economically justified by corresponding real improvement in the utility value. That is to say, the assigned social labor is especially confirmed as qualified labor with higher value-creating potential if it is really reflected in new products with higher performance characteristics, in products that co-determine the advanced international level, can be produced at low cost and especially achieve high returns in export. Therefore the use of qualified labor as an economic growth factor signifies in the first place the recognition of greater expenditures of labor as a result of the development of the utility value.

To make qualified labor with enhanced value and utility-value-creating potential effective is not solely a question of the employment of more highly qualified manpower in the direct work process. As Marx proved, the new value is determined solely by human labor, human labor remains the sole creative element, the "stimulating fire" of production. But to be able to develop the value and utility-value-creating potential of human labor, certain objective prerequisites are always necessary in production, especially a modern material-technical base. The ability of human labor to produce more and higher quality products from a given quantity of raw materials and processed materials and to

be able to create an additional new value is largely achieved by the nature and use of the production equipment, of the machines, technologies, and materials. Without a modern material-technical base, it is not possible now nor will it be in the future to be able to bring to bear the value-enhancing potential of human labor. An additional formation of new value by qualified labor can be achieved only if a qualitatively high-grade level of production and labor is achieved in all stages.

In literature the view is occasionally advocated that an increasing share of the national income in the total social product cannot prevail in the long run, for this is said to be incompatible with the growing organic composition of the production fund. Undoubtedly there are close points of contact between the organic composition of the production fund and the composition of the total social product, the organic composition lawfully growing with scientific-technical progress can unfavorably influence the basic proportions of national income and production consumption. But, as has been repeatedly proved in the literature, it is not permissible to infer from the growing organic composition of the production fund alone about possible proportions between production consumption and national income; here other factors must be taken into account, too, especially fund effectiveness.¹⁰

But unfavorable effects on the composition of the total social product do not necessarily come from a growing organic composition of the production fund. As it is well known, production consumption consists of more than nine-tenths of material consumption and to less than one tenth of depreciations. In contrast, the material production funds of the economy are composed to the far larger part of the basic fund and to the smaller part of the circulating capital. In GDR industry this ratio now amounts to roughly 5:1.¹¹

This makes it evident that the organic composition of the production fund influences the structure of the total social product not by its dynamics alone but also by the change of the proportion of basic and circulating funds. If as a result of technical progress structural shifts occur within the material production fund in favor of the basic capital, this can lead to the result that even with growing organic composition the share of production consumption in the total social product declines.

This means that an increasing size of the national income in relation to production consumption in the presence of a corresponding structural change of the material production fund is definitely compatible with a growing organic composition, that in other words objections from this aspect to a trend of a faster rate of growth of the national income in relation to production consumption cannot be convincing. Basically one not only does not exclude the other, but the increase in the organic composition of the production fund increasingly becomes a direct prerequisite for the further reduction of the specific production consumption in the economy.

This becomes especially evident in the processes of enhanced refining. In part very extensive investments must be made in the economy to be able to reduce the specific material consumption in this manner and to be able to form an additional new value. In the SED economic strategy, the contribution of investments to the

refining of the raw materials is expressly stressed as one of the two aspects for their effective economic application.¹² The key points for expenditures in this connection lie especially where refining is based on the application of fundamentally new technologies and processes and includes the establishment of new production installations.

Thus the refining effect is substantially based on a restructuring of the resources of objectified labor employed in production as a result of which recurrent expenditures are replaced by one-time expenditures; the material and energy savings are achieved to some extent by growing one-time expenditures in the form of basic production funds. That is to say, refining, on the one hand, counteracts the trend towards a more rapid growth of production consumption in relation to the national income, on the other hand it strengthens the trend toward the growing organic composition of the production funds caused especially by the growth of the basic production fund. From the aspect of the development of the effectiveness, especially two tasks are derived therefrom for the implementation of the economic refining program:

First of all, what is important is assuring a high economic benefit from each refining measure, whereby the advance of effectiveness with the user must always be the starting point. This makes evident the close link of enhanced refining to the development of demand, but also points to the necessity of systematically developing new effective fields of application for the highly refined products and of using them only where they lead to high economic results in final production. Highly refined materials, such as improved construction steels, new high-grade plastic materials but also microelectronic components, by themselves as a rule do not cause any economic increase of effectiveness (if the export of these products is disregarded). On the contrary, their use can lead to a partially negative economic effect if the higher costs connected with their production cannot be at least compensated by corresponding progress in effectiveness in their application and use. This makes it also evident how important it is consistently to start from the economically justified demand in the development of new high-grade materials and to increase the degree of refining of the materials only to the point that it can be converted effectively in the final production. Therefore enhanced refining is more than the transition to new products and technologies; it necessarily includes complex structural changes of entire segments of the economic reproduction process, which in most cases include several combines and sections and which necessitate further socialization of production and work.

Secondly, in introducing new refining solutions, the existing basic assets and investments must be used even more effectively and the refining must largely be made economically effective by modernization and reconstruction of existing material production potential. This underscores the necessity to devote maximum attention to the connection of enhanced refining and comprehensive rationalization in management and planning. Undoubtedly there will always be refining measures that require extensive expansion or new investments. A whole series of highly productive refining technologies, especially in the basic materials industry, either cannot be achieved at all or only with considerably greater social expenditures. However, this does not revoke by any means the demand for resource-saving solutions for refining, but reinforces the task to limit the extent of

new and expansion investments to a minimum and to achieve the advanced international level of refining primarily with the existing technological base by its modernization and reconstruction. This assumes highly efficient domestic production of rationalization means, but also demands inclusion of the comprehensive rationalization of the already existing technological base in the scientific-technical setting of tasks for enhanced refining, or to strive from the start for such refining solutions which permit a very high degree of use of the existing production technology.

Enhanced Refining and Further Development of the Production Structure in GDR Industry

The extent of the overall economic consumption of important raw materials and processed materials is decisively determined by the parts of the production profile of the economy that are given priority in development, by the size of the share of the sections and productions with high or low material intensity. When, e.g., the GDR consumes roughly 50 percent more rolled steel per unit of produced national income than the People's Republic of Bulgaria or the Hungarian People's Republic,¹³ then this is primarily attributable to the existing differences in the production structures. With barely 30 percent, the GDR metalworking industry possesses a relatively great share in the total industrial production.¹⁴

The growing importance of structural questions for the further growth of performance in the economy is also especially connected with the fact that, on the one hand, the further development of the output for important mass construction materials such as rolled steel, aluminum, copper and others is greatly limited, on the other hand significant substitution solutions and new action principles that could decisively reduce their economic consumption will not be available for the foreseeable future. Thus in the material supply structure of the metalworking industry no significant changes are to be expected in the coming years; rolled steel for some time will remain the most important construction material despite additional substitution processes. Therefore, the question arises concerning the directions in which the production structure, especially of industry, will have to be and can be changed to be able to ensure continued dynamic economic growth with the available output of rolled steel and other importance construction materials.

The solution to this problem certainly cannot consist in a general restructuring of the industry in favor of less material-intensive, especially rolled-steel-intensive sections and productions. Apart from the fact that the existing section and production structure of industry has evolved over an extended historical development process and therefore also cannot be fundamentally changed within a short period and then only by using large social funds, it is generally not possible to shape production structures mainly according to aspects of the material economy. Decisive influence on the development of the production structures is exercised rather by criteria such as marketability and foreign exchange earning power of the products on foreign markets, inclusion of the production in the international division of labor and in the progressive socialist economic integration, development of demand and the market, the specific level of qualification of the working people, etc. The metalworking industry, the

principal consumer of rolled steel in the economy, occupies the top position in the GDR not only as regards its production volume but also as regards its importance for export.

The emphasis of the structural development must therefore lie in the qualitative enhancement of the existing production profile, on a significant enlargement of the share of more highly refined products in the production structure in all sections and fields. Thus the long-term GDR scientific-technical traditions in the metalworking industry, the rich production experiences of the working class and of the scientific-technical intelligentsia in metalworking are being comprehensively utilized and further developed to raise the performance of the economy.

The qualitative enhancement of the existing production profile by no means excludes special promotion of individual sections or the inclusion of new structural elements; on the contrary, they are of first-rate importance in the implementation of the economic refining strategy. Research and processing-intensive developments such as microelectronics, microbiology, construction of nuclear power plant installations, optoelectronics, etc. constitute not only themselves very impressive results of highly developed and complex material refining processes, they also possess great effect on the entire refining level of industrial production.

In connection with the enhanced refining of rolled steel and other mass construction materials, especially the following processes of the structural development play a special role in the GDR:

1. Raising the qualitative efficiency of metallurgy and the ancillary industry.

Scientific-technical progress brings about that the design and technological connection between the quality of the final product and the quality of the subcontractor's deliveries is getting closer and closer, that the technical-economic level of the final product is influenced more and more strongly by the technical-economic level of the subcontractor's deliveries.¹⁵

This is demonstrated especially in the application of microelectronics in working materials and industrial consumer goods. Thus the utility value of a machine tool is now determined in the first place by the microelectronic control integrated in it and the industrial robotics interlinked with it, which is reflected, among other things on the foreign markets, in about three times higher per kilogram prices--in relation to machine tools that do not possess any microelectronic control device. Backwardness in the technical development of important subcontractor's deliveries such as microelectronic components, standard parts, gears, therefore are multiplied in backwardness of the final products.

2. Increase in the share of modern material-economizing and material-refining processes in the total production processes in the metalworking industry.

What is especially important in this connection is the greater use of processes that also permit effective technological solutions in small and medium-series production, the types of production dominant especially in machine building.

The purposeful utilization of modern processes for reducing specific rolled steel consumption is inseparably linked with the further development of the refining of parts of functional construction parts and tools in the metalworking industry. High-precision thermal treatment processes form the direct connection to the refining metallurgy, especially in pan metallurgy, to be able to make full use of and exploit their high-grade material technical effects. At the same time, refining of the parts is an important way to effectively meet the technologically caused increase in the wear and tear, especially in functionally determining components, devices and tools because of growing efficiency of the machines and installations, advancing automation of entire processes, increasing demands for precision and exactness of the production, etc.¹⁶ For example, by rim zone sheathing or surface treatment, the wear resistance and thus the life of functional construction parts and tools can be increased by a multiple.

3. Increasing the share of immaterial work, especially project-planning work, in the export of machines and installations.

In the international investment goods trade, complex orders for complete objects play an increasingly important role. The customers increasingly expect complete tenders for the solution of their user problems, e.g. the comprehensive reconstruction of entire plants or plant departments, thus not only efficient machines, installations, and equipment but also the necessary project-planning documents for their specific location. The ability of the GDR economy to link the export of machines and installations even more closely with the necessary project-planning services significantly influences the achievable export proceeds and thus the degree of utilization of the used materials. Moreover, this ability will essentially decide how industry can stand its ground in the stepped-up international competition.

4. Development of the industrial design into a high-performance field in science and technology.

This task is derived especially from the increasing abundance of the supply of technically high-grade products on the international markets and from the increasing requirements for consumer supply with high-quality industrial consumer goods. Of course, the salability of a machine, an instrument or industrial consumer goods is determined, first of all, by the direct use characteristics, such as efficiency, functional safety, and reliability. But to the degree to which the differences in the direct performance characteristics of the offered products decline, the economic importance of the design grows, the design becomes a factor determining sales. Therefore using products as top products without top designs is hardly possible any longer today.

Concerning Management and Planning of the Refining Processes

Experience shows that the necessary progress in the field of refining can be achieved only if special attention is paid to it in the complete process of management and planning. Even more: management and planning of the refining processes increasingly are among the most important foundations and prerequisites for perfecting management and planning in their entirety directed toward comprehensive intensification.

Special importance applies here to the refining concepts. "These concepts must include essential performance targets of every ministry, every combine in the implementation of the economic strategy, indeed they are the concrete expression of the economic strategy for every combine."¹⁷ Their function consists in determining all essential tasks that must be solved to guarantee in the medium and long term a high and stable rate of the development of effectiveness and of the production growth with the foreseeably available resources, especially of energy sources, raw materials and processed materials as well as of investments based on effective utilization of the latest scientific-technical findings and a high rate of renewal of the production in the medium and long term. What is involved here are especially the linking of five components:

1. The tasks for product and process development to be derived from the prognostic changes of user needs obtained from market research. This requires clear ideas especially on the development of the principal parameters of the most important products and technologies.
2. The developmental trends foreseeable in the field of research of engineering and technology, of the qualitatively new technical solutions. These include especially such fundamental developments as microelectronics, robotics, the biotechnologies etc. that make it possible to attain a noticeable new value increase by their application in production.
3. Estimates of the resources in energy sources, raw materials and processed materials available in the future, whereby the purposeful development of the material use potential of domestic raw materials, by-products and scrap materials is provided with a long-term orientation.
4. Possible main directions of basic asset reproduction and manpower development.
5. Necessary changes in management and economic organization, especially in the cooperation and combination of the production.

What is significant is the fact that all five components have a relatively independent meaning, whereby a measure of dominance must be assigned to the first component. However, the basis of the refining concept is optimal combination of all components. Thus the available resources must be regarded as an important starting point for scientific-technical solutions. It is obvious that the connection between the refining concept and the science and technology plan is very close to the developmental concepts of the combines. Nonetheless the refining concepts must be regarded as a special control instrument that cannot be replaced by anything else, that at the same time is indispensable for the qualification, better justification of other concepts and plans.

With the transition to higher levels of refining in the combines, an accelerated verticalization of the production process takes place, a verticalization that is linked to consequences for the management organization. Studies in combines of the basic materials industry have shown that management and planning of the refining processes exclusively by fields such as plant managements, sections,

departments, etc. is not effective enough to effectively master these processes in their entire complexity and universality. From the aspect of an individual field, the overall connections of the growth relations connected with refining frequently cannot be comprehensively judged in their dynamics. Frequently hundreds or more than one thousand intermediate products from the most varied fields are assigned to the individual refining processes and must be coordinated and adjusted by management, something that cannot be implemented by means of the existing management structure alone in the required quality and time.

In perfecting management and planning in connection with enhanced refining, it cannot be the purpose to abandon or change tested management structures and principles but what is involved is to supplement the management structures by meaningfully combining the responsibility for the field with the process responsibility. It is especially important to guarantee management and planning of the refining processes by uniform coordination of the fields while maintaining responsibility for the fields. In this connection, the conceptual preparation, management and planning of the refining processes following specific refining lines have proved successful in various combines.

A refining line is defined as a management-organizational, measure-related part of a vertically structured production process within a combine. It comprises all necessary economic and technical-technological tasks and measures to produce high-grade final products by stepwise processing of working of the raw materials and processed materials. To guide the refining lines, refining line councils are formed in individual combines which possess the status of a permanent interdisciplinary working group and are managed by a technical director on behalf of the general director. The refining line councils discuss all management, planning, and accounting questions related to the implementation of the tasks and measures of the refining line as well as the coordinating subject and time assignment of the capacities of the fields belonging them. Members appointed to the refining line councils are the most important "scientifically most knowledgeable persons" of the product group concerned, mostly the directors or their deputies of the fields concerned. The results of the discussions result in decision proposals which are submitted to the general director and then achieve binding character by means of the existing channel for issuing directives. Thus friction losses are limited and "double" management structures are avoided. That is to say, the existing management hierarchy is not overruled or loosened but supplemented. The additional management expenditure connected with the work of the refining line councils is justified especially where a multiplicity of raw materials and intermediate products from several fields belong to one refining line.

With management and planning of the refining processes according to refining lines and refining line councils, the unity of stability and flexibility of the reproduction process in the combines can be strengthened and the effectiveness of these processes can be fostered because thus

--the possibility is created to tighten the management and planning process and to apply the resources in a more concentrated manner;

--the assessment of the technical-economic parameters of the refining program can take place uniformly and clearly from raw material to final product through every step of the processing and working and beyond the limits of the fields;

--exact measurement and assessment of the degree of refining as well as the entire effectiveness of the refining process are made possible.

Overall it becomes evident that the necessary economic growth vitally depends on how it is possible to achieve enhanced refining on the scale of the entire economy. Its performance and effectiveness-increasing effect will occur to the desired extent if the use of the subjective and material potentials goes hand in hand with the direction of the management and planning processes towards the tasks of enhanced refining. Finally, what is at stake is to achieve a performance and effectiveness push by raising the qualifications of the entire system of management and planning by means of enhanced refining, a push that makes it possible to continue the policy of the principal task under the complex conditions.

FOOTNOTES

1. Seventh SED Central Committee Plenum, E. Honecker, "In a Battle-filled Time We Are Continuing the Tested Course of the Tenth Party Congress for Peace and Socialism," Dietz Verlag, Berlin 1983, p 24 ff.
2. "Report of the Central Committee of the Socialist Unity Party of Germany to the Tenth SED Congress," rapporteur: E. Honecker, Dietz Verlag, Berlin 1981, p 53.
3. K. Marx, "Outlines of the Critique of the Political Economy," Dietz Verlag, Berlin 1974, p 266.
4. Cf. K. Steinitz, "Enhanced Refining--Crucial Question of the Economic Strategy," SPECTRUM, No. 11, 1983, p 8 ff.
5. K. Marx/F. Engels, "Works," Dietz Verlag, Berlin 1956 to 1968, Vol 26.1, p 191.
6. "New Initiatives for the Fulfillment of the Resolutions of the Tenth Party Congress," Dietz Verlag, Berlin 1983, p 25 ff.
7. Cf. Authors Collective, "On the Material-technical Base of the GDR," Dietz Verlag, Berlin 1979, p 128.
8. "Economic Strategy of the Party--a Clear Concept for Further Growth," Dietz Verlag, Berlin 1983, p 125.
9. Cf. K. Marx/F. Engels, "Works," op. cit., Vol 25, p 118 ff.
10. Cf. Authors Collective, "Economic Laws of Socialism," Dietz Verlag, Berlin 1981, p 247 ff.

11. Cf. D. Gebhardt/H.-W. Stenzel/F. Tuttlies/H. Uebermuth, "The Circulating Capital of Industry and Its Utilization for Intensifying the Reproduction Process," WIRTSCHAFTSWISSENSCHAFT, No. 8/1982, p 1158.
12. Cf. "Report of the Central Committee of the Socialist Unity Party of Germany to the Tenth SED Congress," op. cit., p 57.
13. Cf. A. Subkow, "The Structure of Material Consumption in the European CEMA Countries," SOWJETWISSENSCHAFT, GESELLSCHAFTSWISSENSCHAFTLICHE BEITRAEGE, No. 2/1983, p 211.
14. Cf. "GDR 1983 Statistical Yearbook," Staatsverlag der DDR, Berlin 1983, p 137.
15. The following have dealt in more detail with this problem: R. Gerisch/R. Rosenkranz/A. Seifert, "Product-specific Subcontractor's Deliveries and Flexibility of the Production in Machine Building Combines," WIRTSCHAFTSWISSENSCHAFT, No. 6/1983, p 823 ff.
16. Calculations for a railroad passenger car for example have shown that after a 24-year period of use there is a ratio of 1 to 3 between material expenditure for the production of the railroad car and the material expenditure for necessary spareparts and repairs; the material expenditures for the replacement of the worn brake linings alone during this period of use are more than twice as much as those for the production of the entire railroad passenger car. (Cf. A. Koenig, "Assurance of Reliability From an Economic Aspect," IFL-MITTEILUNGEN, No. 4/1979, p 138).
17. G. Mittag, "Comprehensively Organize Intensification by New Standards," EINHEIT, No. 4/1984, p 321.

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GERMAN DEMOCRATIC REPUBLIC

BRIEFS

NICARAGUA TEXTILE COOPERATION--Karl-Marx-Stadt, 15 Nov (ADN)--The GDR's textile engineering industry will participate to a considerable extent in the reconstruction of Nicaragua's light industry enterprises. In the short-term, it will equip the clothing sectors of 10 small textiles factories with industrial sewing and cutting machinery, automatic embroidery machines, and high-power knitting machines. A further contract provides for the modernization of enterprises for textile finishing in Nicaragua. [Excerpts] [East Berlin ADN International Service in German 1420 GMT 15 Nov 84 ID]

ANGOLAN LABOR MINISTER--On 9 November Werner Krolikowski, SED Central Committee Politburo member, received for a talk Horacio Pereira Braz de Silva, Angolan minister of labor and social security. They expressed their satisfaction with the Treaty on Friendship and Cooperation and the level achieved in cooperation and the development of relations. Both partners in the talk resolutely condemned the aggravation of the international situation by the course of confrontation and intensive armament of the aggressive circles of imperialism in the United States and NATO. The Angolan minister reported on the struggle of the Angolan people to preserve the territorial integrity of the country and stabilize of the GDR Government in the vocational training of young Angolan working people. Werner Krolikowski reaffirmed the GDR's solidarity with the struggle of Angola. [Summary] [East Berlin NEUES DEUTSCHLAND in German 10-11 Nov 84 p 2 AU]

AID TO ANGOLA--The GDR is to give increased help to the People's Republic of Angola in the development of industry and agriculture. Relevant agreements were concluded today by the two countries' foreign trade ministers Soelle and Martins. They signed a protocol in Luanda on next year's trade. The protocol provides, among other things, for experts from the GDR to continue supporting enterprises in Angola. The training of cadres will also be continued. [Text] [East Berlin Voice of GDR Domestic Service in German 1800 GMT 17 Nov 84 ID]

FARM GROUP PRAISED FOR PRODUCTION--Farmers in the five cooperatives of the Marxwalde cooperation unit, Seelow District, this year achieved the highest ever soil yields and livestock production. They propose to repeat, stabilize and consolidate these results in 1985. They adopted their competition program today after a detailed discussion. Werner Felfe, member of the Politburo and secretary of the SED Central Committee, praised the close links between science and farming practice, as reflected in their ambitious targets. Further high production increase, he said, was essential in order to supply the people with food, and industry with raw materials in an exemplary manner. [Excerpts] [East Berlin Voice of GDR Domestic Service in German 1800 GMT 28 Nov 84 LD]

CHANGES IN AGRICULTURAL PRICE, FINANCIAL REGULATORS PUBLISHED

Budapest MAGYAR MEZOGAZDASAG in Hungarian No 44, 31 Oct 84 p 5

[Unsigned article: "The 1985 Changes in the Agricultural Price and Finance Regulators"]

[Text] The Council of Ministers discussed the experiences in the functions of the price, financial and subsidy system of agriculture and adopted a resolution concerning the changes to enter into force in 1985.

The changes in the regulators and related measures should give rise to a production system that meets more effectively both domestic and foreign demands. They should further improve quality and save expenses, should improve productivity and thriftiness and as a result of all this should enhance our international competitiveness.

Price System

In the area of important production tools and materials which are used in agriculture, the purchasing price of agricultural fertilizers will rise, as a result of the decrease in price-subsidy and the increase in import prices and marketing expenses, at the beginning of 1985, by 8 percent. In the framework of the 1985 modifications of prices and regulators the lawmaker took into consideration the fact that the agricultural purchase prices of plant protecting agents and herbicides are expected to rise by 4-5 percent during the coming year, and that as a result of changes in the production and import costs, the prices of machinery, spare parts, construction materials, certain energy carriers and other materials will also rise, although to a lesser extent.

The consumer prices of small agricultural machines will rise, concurrently with the cancellation of subsidies, by an average of 11 percent.

The agricultural purchasing prices of cereal, protein and mixed fodders will not change.

In order to counterbalance the justified increases in costs, the prices of the freely priced agricultural products will be increased, and the following official price increases will take place:

In order to improve the profitability of cattle breeding, the large farm price subsidy on milk rises by 0.40 forint per liter, and on slaughtered cattle by one forint per kilogram.

With an improvement in the profitability of sheep breeding in mind, the government raises the purchasing price of slaughtered sheep by 9 forints per kilogram and that of unwashed wool by 4 percent.

The purchasing price of sugar beet will be increased, in order to improve the profitability of its production and to fully meet the domestic demand for sugar with the help of supplies of Hungarian origin, by 10 forints per 100 kilogram.

In order to raise interest in apple growing, the purchasing price of winter apple will rise by 0.50 forints per kilogram.

In addition, further progress will be made in the differentiation of prices according to quality and the role of prices in prodding improvements in quality will be enhanced (for example: sunflowers, sugar beets, hogs fattened on small farms, etc).

From the current subsidies to farming, the subsidy granted for the replacement of discarded ewes in sheep breeding will be cancelled and the large farms will receive a subsidy of 3.40 forints per kilogram on the sales price of slaughtered animals instead.

The Subvention System of Investments

1. Credits received for certain investments will continue to be eligible for interest refund, the extent of which will rise from the current 2-4 percent to 5-7 percent in case of investments.
2. The purchase of irrigation machines will be automatically subsidized by 20 percent of the purchase price.
3. In addition to the subsidy granted for the purchase of vegetable growing machines, the specific machines of sugar-beet growing may be eligible for a subsidy of maximum 40 percent beginning next year.
4. Subsidies for the construction of new hog-breeding farms are cancelled. Yet a financial support of up to 35 percent may be granted for the modernization and expansion of the existing farms, in case the investment in question aims at energy savings, or the utilization of waste or second-rate materials.
5. Subsidies for the establishment of milk cow accommodations which were fixed before at 18,000 forints per unit, will be decreased to 12,000 forints.

In the future the investment subsidies regulated by this decree will be available--in case of the implementation of a definite investment goal--also for the food processing enterprises covered by the decree.

According to the new conditions of subsidies for the farms with unfavorable production conditions, will be eligible for subsidies, beginning in 1985, all those in which the value of the per hectare average yield of the cropland did not exceed on 31 May, 1984 19 gold crowns.

The farms will receive differentiated price subsidies, according to their sales revenue and depending on the gold crown value of their cropland. The rate of these subsidies will range from 3 to 24 percent in case of plant production, cattle, sheep and goat breeding, and for the products of the other branches of animal husbandry from 3 to 12 percent.

Taxation and Income Regulations

The system and rates of taxation will remain generally unchanged. However on account of city and village taxes instead of the current one percent 3 percent of the gross income will have to be paid.

Insofar as income regulations are concerned, the farms and enterprises can choose now from among three systems. Once the system is chosen, no change is possible for 3 years.

1. In case of the regulation based on the wage fund pending on the added value, the wage fund can be increased by 0.4 percent on the basis of each 1-percent increase of the added value in comparison with the previous year's stand. If the index declines, the tax-exempt wage fund must also decrease.

2. In case of the regulation of wages based on the gross income level, tax-exempt wage increases between 0 and 0.60 percent can be instituted pending on the formation of the previous year's gross per capita income. The incentives for vegetable growing and rational labor economy will remain in force.

The two aforementioned forms of taxation are complemented by a provision concerning profit share payments pending on the per capital profit level, which may be tax-exempt to the extent of 1 to 18 percent of the wage fund.

3. In case of the income taxes on large enterprises, the rate of the tax is based on the total amount of the employees' income they earned from the enterprise. The rate of taxation will be groupwise progressive (between 0 and 50 percent) and taxes are to be charged to profits of the farm or enterprise. In order to keep the outflow of incomes within the planned framework, a temporary complementary rule has been inserted, according to which additional income tax must be paid on average wage increases in excess of 5.5 percent, which is disproportionate to the ratio of increased productivity.

Investment Purchasing Power Regulations

Instead of the current complex and multi-channel system, the investment purchasing power in the farming and food processing enterprises will be regulated by the accumulation tax, the basis of which will be the investment expenditure, plus the amount turned over to the revolving fund. The rate of tax will be 8 percent on hectare values of up to 14 gold crowns, from 14 to 19 gold crown hectare values 20 percent, and beyond that 23 percent.

From the accumulation taxes will be exempted new plantations, meliorations, certain purchases of machinery which serves the farm's basic activity and growth in the stockpile of the farm's own agricultural produce.

Beginning 1985 the formation and utilisation of the funds and the regulations concerning income distribution will change significantly. The net income after city and village taxes and income taxes, as well as the amount available from amortization in a given fiscal year will be turned over to the united interest fund. All those outlays which cannot be accounted for as expenditures or investments, can and must be financed from this fund. The most important of these are the liabilities toward the state and the bank (income-regulating taxes, amortisation of development credits, etc), refilling of the revolving fund, disbursements of investments and participation character, purchase or amortisation of bonds, innovation fee, etc.

In order to ease the liquidity problems of the state farms, a centrally managed so-called Enterprise Cooperation Fund will be created along the lines of the Mutual Relief Fund, which has been functioning in the area of agricultural cooperatives.

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COMPETITIVENESS OF HUNGARIAN AGRICULTURE DEBATED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 10, Oct 84 pp 1205-1216

[Article by Dr Erzsebet Lazar, section head, Ministry of Financial Affairs:
"The Competitiveness of Hungarian Agriculture; An Answer to the Article of
Miklos Mentenyi¹"]

[Text] In his article the author promised an answer to a question of great interest. The direction and magnitude of the development of our economy really are determined by the extent to which we are and will be capable of offering on the internal and especially on the external market goods which can be sold in such a way that they will return our expenditures and bring an "honest" profit.

But can our market prospects be judged and can our economic competitiveness be measured in the way used in the article? Is a method which compares national production price levels and production costs suitable for this, a method in which we compare the national producers' prices of the developed capitalist countries (West Europe and the United States) with ours in such a way that we relate the price levels by bringing the exchanges to a common denominator and perform the recalculation with the aid of the forint/dollar rate of exchange in the subject year?

In what follows I intend to comment on these questions, on the method of comparison used and the conclusions drawn from it, and I will try to bring before a broader professional public opinion a picture of the problems of the agricultural price and support system which I have developed--as the result of a radically different view of the question of competitiveness.

In Regard to the Method of Comparison Used

To draw conclusions about the international competitiveness of products--even of branches--ignoring the national peculiarities of the categories of price and production cost and on the basis of the higher or lower nature of the national price levels alone is a daring undertaking.

The national peculiarities of prices (or production costs) are interdependent with the productivity of labor, the standard of living and the substantive differences deriving from the accounting relationships of the production costs--that is, with the so-called price structure differences.

The production costs of products can be different in two countries even at the same level of the productivity of labor, and vice versa, the price can be the same despite differing degrees of the efficiency of labor, which derives from the character of the expenditure (production cost) or from the fact that the processes of producing, distributing and redistributing the new value² are reflected in them, or peculiarities (differences) are reflected in them which involve the national money relationships.

As for the other circumstance interdependent with the national peculiarities of prices (production costs), the standard of living, the factors of this consist of work incomes and social allotments. It follows from this that the price (production cost) relationships are connected not with the standard of living in general but rather with the distribution form of consumption and wage income, which appears in the production cost as a wage cost.³ Given two countries which produce with the same natural and technical conditions and the same efficiency of labor, the production cost (price) will be greater for the one in which the standard of living is higher or, in the event of the same standard of living, the one in which the weight of money incomes is greater.

In regard to cost accounting also the national producers' prices cover gigantic differences, which are expressed in price structure differences. The basic differences in accounting are the following:

a. Differences in the price mechanism, or the role played by supply and demand relationships in price formation (whether there is such a role and if so what role the market has). So the rate of profit realized in the producers' prices--and the differentiation of it by product--covers not simply the internationally measured differences in efficiency, it also involves the process of price formation.

b. Differences in the methods of domestic price formation for export and import products: how close the link is between the national producers' prices of this or that country and the foreign trade prices--distorted by direct or financial bridges.

c. Differences in price formation:

--there may be factors in the production costs of some countries which are ignored in another country as a constituent element of profit, or which simply are not used (for example, land use fees, land tax, property insurance or interest on bank credit used as circulating capital);

--accounting for amortization, the decreased value of fixed capital, is regulated by obligatory prescriptions under our conditions--it is paid back among the costs--while under capitalist conditions amortization is not a cost but rather a value creating element, it is generated where and to the extent that the market recognizes the investment of capital in the prices;

--whether the materials and tools of production used in the production of a product appear in the product price equal to the work expended on them or whether they are burdened by a state tax or made cheaper by a subsidy (production taxes and supports).

d. In addition to the foregoing the price structure differences of agricultural producers' prices also appear in how the producers' (purchasing) price or the combination of budgetary supports and taxes determine the income relationships of agriculture. It is well known that while some countries combine their purchasing prices, which are relatively low compared to the expenditures, with budgetary supports outside of the price as generally interpreted (this characterizes the present domestic conditions also), others (for example the countries of the Common Market) try to see to it that the price basically provides the return, and supports outside of this serve precisely defined (structure transformation, development and export) goals.

As for the domestic agricultural supports, which are on a quite broad scale, the path of direct supports for current production, in addition to the consumers' price and export price supports, can be followed--more or less--in the products. The situation is more difficult with indirect price supports--extended for tools of production and industrial materials--and with developmental supports and especially with supports for farms with unfavorable natural conditions.

When quantifying the price level increasing effect of the latter, for example, one must go to the marginal cost (which is not the same as the pricing of the total support), because this support element is interdependent with that character of domestic price level policy which limits the differential land contribution. While capitalist agricultural producers' prices are determined by the cost-yield relationships of average level farmers on the worst quality land still brought under cultivation⁴ the domestic agricultural producers' prices are tied essentially to average land quality. Domestic agricultural prices are tied essentially to average land quality. Domestic agricultural prices are supplemented by extensive supports--outside of the price--which the state pays in order to avoid the impossibility of farming by those with land quality less favorable than the average. (In principle the source of the support was to have been withdrawal of the differential land contribution--the land tax--but in practice the magnitude of the tax is small in comparison to the supports.)

With the above, not at all complete, listing of the factors influencing the magnitude of national producers' price levels I intended to illustrate the complex composition of the factors to be considered in the course of a comparison; these factors make of dubious value conclusions which can be drawn from a mechanical comparison of national producers' price levels--with the aid of rates of exchange. (That is, conclusions in regard to whether we produce some product "expensively or cheaply" on the basis of international comparison, or whether the support we turn to agriculture is little or much).

In my opinion, if the category of producers' price or production cost is to be suitable for the purposes of international comparisons then we would need, before all else, to perform the calculations according to the same type of production cost, in a uniform price structure, since the national peculiarities aiding in the accounting relationships are obstacles to the comparability of production conditions which cannot be ignored. In this case the differences hiding in the accounting relationships might "disappear" and the prices would reflect the differences in the productivity of labor and in income relationships

or the natural, technical and economic conditions of the production of the countries or those differences which appear in regard to the standard of living.

Since essential elements of the differences existing in the national "calculation systems" (accounting relationships) are definitely expressed in the price level then, where an economically determined rate of exchange is available, one might imagine, in principle, a mechanical price and production cost comparison--standardized with the aid of the rate of exchange--because this could make the price structure differences largely indifferent. (If, for example, some country calculated out of the costs those expenditures which are taken care of by another country with budgetary financing, outside of the price, then the price structure difference thus arising is rendered largely indifferent by the fact that the foreign exchange of the latter country is valued higher compared to the former.)

In practice however, even in the case of convertible exchanges, the rate of exchange faithfully expresses the ratios of the national producers' price levels only if:

--the country is organically incorporated into the world market, with internal and external market prices mutually affecting one another;

--market relationships rule domestically, and capital flow makes possible the realization of comparative advantages, primarily in the case of products where the country determines the price on the market.

When a country cannot meet these conditions its rate of exchange is determined primarily on the basis of the (average) export production cost, and the rate of exchange will necessarily be higher--as a result of differences in its export and production structure and because of the expense of producing for export--than if it had been determined by the cost of domestic marketing (the national producers' price level). The effect of this on the rate of exchange is "devaluing" compared to what would be justified by the national producers' price levels; namely, in the course of the recalculation--done with the aid of it--it carries the devaluing relationships into the producers' price level of the countries being compared, and distorts the price level difference.

It follows from the foregoing that in our case--via the requirement to standardize the price structures needed for the comparison--everything which is really a foreign exchange problem precipitates out as a price problem and the price comparison used can produce an entire series of misleading conclusions contradicting reality and unrealizable "advantages" are discovered when we do not turn to our profit our really existing advantages and natural conditions.⁵

In all certainty we might discover a "similarly favorable" situation for another branch of the economy using this "method," which in theory would give us a comparative advantage. But practice--unfortunately--does not follow the theory, and in world market competition even the advantages of our really low costs frequently are not realized.

Let us take, for example, the cost of live work use, which was substantially undervalued in our producers' prices in the past 10 years--and was lower than justified by the standard of living and productivity differences appearing in

an international comparison as well. As a result of the strongly increasing over-valuation of the live work costs in capitalist countries this relative under-valuation even increased during the 10 years, but it did not provide us a more favorable return on expenditures in the export prices, rather it created an extensive system of state rebates (export supports) and led to a deterioration in the valuation of live work in export.⁶

All this was not a consequence of the world market price explosion or even of the deterioration in the terms of trade, for both affected most of the developed capitalist countries as they did our country. It was much more interdependent with the fact that while the serious economic problems of the past 10 years increased the efficiency requirements in the capitalist countries most strongly in regard to live work use--as a logical consequence of the fact that they also could counter-balance the disadvantageous change in world market conditions only with the efficiency of the creation of added value--for us live work became a factor of production to be squandered more and more, and the excessive use of it led to a deterioration of the efficiency of social production and to a reduction in the ability of the country to produce national income.

In this way also the price losses of our export increased the disadvantages we suffered due to the unfavorable terms of trade, as a result of which the cost of generating capitalist foreign exchange constantly increased. Our payment difficulties, the necessity to cut back imports and encourage the quantity of export and the supports burden of this--finally--forced a series of devaluating rate of exchange steps.

A devaluating rate of exchange policy in itself does not lead to an expansion of export (if economic policy does not use in time those tools which prompt an improvement in the efficiency of export), even less to the development of an efficient export structure, rather, by lowering the return requirements, it produces a sort of "liquidation" of export, and finally produces a deterioration in the external economic balance.

In such a situation it would be an illusion to judge the cost level of any economic branch to be relatively advantageous in an international comparison, or to find the level of support for it correct. So if we are to bridge the price structure differences--with an "editing" of the same type of production costs or with the aid of an economically determined rate of exchange in accordance with the foregoing--then we cannot rely only on the conclusions to be drawn from a comparison of national price levels either, rather "classifying" the price level differences will require an additional, very circumspect analysis. And it is not at all a matter of indifference whether the price level difference derives from actual efficiency differences or from differences in the distribution relationships (from the peculiarities of the national financial systems) or possibly from differences in the standard of living. If, for example, the price level differences involved are not determined by differences in productivity but rather it is only that the differing standards of living of the countries being compared give rise to a favorable price level shift for some product then this does not represent an unambiguous advantage, especially in a foreign market competition where over-production and speculation stabilize the world market prices at a low level--so that export subsidies are

the price of competitiveness. Indeed, the export support need of the lower producers' price level could appear as an even larger relative burden (compared to per capita net national production) than that of a higher national production price level at a higher stage of economic development.

A conclusion which can be drawn from price levels reflecting only national value relationships and ignoring real processes (production economy, efficiency of tool use, materials and manpower, level of yields, level of crop production and animal husbandry work, etc) can be so misleading that it can present us with the need to increase supports--illustrated with international examples--as virtually the only prospect for agricultural production and export when there are also ample lessons from international comparisons of how a country weak in raw materials and energy should "prize" its good agricultural conditions and exploit the potential possibilities in the branch.

Holland might be an example of this, for the economies of the two countries show similar traits in a number of respects (small base area, high population density, lack of raw materials, the important role of foodstuffs trade, etc.). All we learn about its agriculture from the disputed article is that the producers' price, in forints, for every product discussed (wheat, slaughter hogs, slaughter beef, milk) is higher than ours, so we are "cheaper" and thus competitive.

One might ask how we come to this example in milk production, when in Holland the annual milk yield per cow reached our 1981 level in 1950 (3,800 kilograms) and in 1979 they reached a yield of 5,200 kilograms with a feed use of 400 grams per kilogram of milk while we needed about the same specific feed use to reach our present substantially lower yield level.

Or let us look at the daily weight gain in hog fattening, which characterizes use of buildings and permanent expenses in general; this was 620 grams in Holland in 1976-1977 while the index for fodder conversion (the amount of feed used for one kilogram increase in weight) was 3.24 kilograms. On large Hungarian farms the daily weight gain of porkers was 468 grams in 1977 and is not more than 500-520 grams today, and the feed used for one kilogram increase in weight was 4.23 kilograms in 1977 and around 4.10 today.⁷

One might question the justification of the international comparison used for agricultural producers' prices in regard to the countries compared also, since it is well known that the internal agricultural producers' prices of the developed capitalist countries of Western Europe, and especially of the member states of the European Community, are kept high and are influenced by factors which make a comparison--and the conclusions drawn from it--of dubious value.

Following the Second World War the development level of industry in Western Europe made possible a protectionist agricultural policy manifested in agricultural producers' prices which were kept high compared to world market prices; defending agricultural production against import, or the balance of payments, made this necessary; and increasing unemployment and political and social policy factors have preserved it up to the present. So in neither the past nor the present was the agricultural price policy of the developed Western European capitalist countries--a policy which departs from real market needs--determined by export efforts.

It is another question that the producers' prices, kept high and divorced from market conditions, encouraged the producers to increase their production--uneconomical in comparison to world market prices--to such a degree that finally it exceeded what was intended (the level of self-supply) and led to the accumulation of surpluses on the internal market and within the Common Market integration, prompting a search for export markets to get rid of them. In this way, today, the Common Market exercises pressure, not only with its price equalization system but also with its supply, on the otherwise low level agricultural prices corresponding to the favorable expenditure-yield conditions of the large overseas exporters, and pays an awesomely increasing export subsidy for market competitiveness in order to get rid of its surpluses.

So their economic problems, intervention expenditures, storage costs, export subsidies and unsold supplies increase together with the increase in agricultural production. The oppressive problems have now increased to such an extent that even experts from the developed capitalist countries are citing the agricultural policy of the Common Market as a failure of economic policy. We can hear ever hotter statements from the member countries that they would like to free themselves from the state housekeeping and consumers' burdens of agricultural price levels which are kept high.⁸ It may well be that these burdens represent for them a "bloodletting" which is a good bit smaller in proportion (considering the high level of their industrial development, the abilities of their economies to bear the burden and the ratio of the deficit export due to agricultural products) than the budgetary and consumers' burdens of our export-oriented agricultural production, burdens which are tied to the "lower" (?) producers' price level but which are still too great compared to the export prices which can be obtained (with regard to their weight in total export too) and compared to domestic solvent demand.

After this, in order to prove how far from our real situation the statements made on the basis of the disputed method are--and according to these statements our production is cheaper even than the agriculture of the United States--let me try to present an index well recognized in the theoretical literature and internationally accepted, the so-called rate of nominal protectionism, giving an international comparison.

Since Hungarian calculations of this character are not prepared in a time series it may be sufficient to publish the indexes for 1975-1980 for the other countries too. By presenting the development of the index every 5 years I intend to call attention to a few interesting and instructive trends:

--If we treat the "rate of protectionism" as a measure of a sort of "isolation" of the national economies, then Switzerland and Japan lead in the area of agriculture with a rather great "advantage".

--Nor does Hungary lag far behind, although its agricultural producers' price level is determined not by protection against the external market but rather by its export orientation. From this viewpoint it is worth noting the rate of the United States, which today is practically equal to zero! But even the rate of other European agricultural exporter countries remains substantially below the others (for example that of Holland or Denmark or even France).

--Switzerland has used a very high rate throughout--price level diversion--for unique political and economic reasons. The rate of Japan is high, indeed very high since 1965; it reached the level of the EC in 1960 and that of Switzerland 5 years later; and this is interdependent with the fact that in these years industrial growth has been very high in Japan.⁹

Table No. 1. The Rate of Agricultural Protectionism in the Developed Capitalist Countries and in Our Country (percent). (The rate of nominal protectionism equals production at domestic prices minus the annual production of the country at world market prices divided by production at domestic prices.)

Country	1955	1960	1965	1970	1975	1980
United States	2.3	0.9	7.6	9.8	3.8	-0.1
EC	23.3	24.3	26.1	31.5	20.8	26.0
France	23.8	18.5	21.9	30.6	21.9	22.8
FRG	21.9	28.9	31.9	30.7	26.4	29.6
Italy	29.5	29.9	34.7	37.1	23.3	32.9
Holland	10.7	18.1	23.5	25.7	22.4	20.2
Great Britain	25.9	25.4	15.9	19.9	15.3	24.3
Denmark	4.3	3.1	4.3	13.6	15.5	19.6
Sweden	23.8	28.7	31.7	36.8	26.8	33.6
Switzerland	34.7	35.5	39.4	45.7	46.5	53.1
Japan	15.0	29.3	40.3	42.1	42.7	45.5
Hungary						30.0

Source: The foreign data were published in the 8 December 1983 issue of NEUE ZÜRCHER ZEITUNG under the title "Protection of Japanese Agriculture (An International Comparison)" (ALGY).

The Hungarian data are an OAAH [National Materials and Price Office] calculation prepared prior to the 1980 agricultural price system adjustment, in the course of preparatory work. (See Bela Csikos-Nagy: "Hungarian Price Policy", Economic and Legal Publishers, 1980, pp 119-121; and Bela Csikos-Nagy: "The Foodstuffs Economy in the Mirror of Price Policy", GAZDALKODAS, November 1980, No 11.)

The world market price model calculation of the OAAH pertains to products making up about 90 percent of the value of purchases (plow land, garden and animal products) and takes the 1977 capitalist market prices as a base.

The foreign data considered the prices of six types of grain (wheat, rye, barley, oats, corn and rice) and sugar beets and potatoes. The data used come from the various governments, from the FAO, the OECD and the EC Committee and the calculations were done by the Forum for Policy Innovation (Tokyo)--a university institution. The "rate of nominal protectionism: gives the measure by which the governments raise their domestic prices above the world market prices--by trade restrictions, by purchasing obligations (state intervention), by price controls and by subsidies. (Thus it does not contain that area of supports which are offered by the governments of some countries, including ours, to support agriculture in production and development in the most varied ways and to the most varied degrees.)

We must ask as a question to be considered if the development of domestic industry or the industry of an international integration (CEMA) can be the "patron" of the relatively high rate of our country--a rate which, it appears, has been increasing since 1980?

--The "rate of protectionism" increased between 1955 and 1970 not only in Japan but in the developed capitalist countries in general, which is interdependent on the one hand with the drop in world market prices and, on the other hand, with the founding of the EC or the joining of additional countries (for example, Denmark). But it is a very important fact that in the last decade, in a period of world economic crisis, the rate of protectionism dropped in the developed capitalist countries--with the exception of Switzerland and Japan--despite a development of world market prices unfavorable for agricultural products.

One could dispute the substantive identity of the domestic indexes and those calculated by the Forum for Policy Innovation, partly in regard to the products considered (ours is more extensive and includes, for example, the chief gardening products also), and partly in regard to the world market prices (in our case the world market price means the 1977 capitalist market export prices, and in general the exchange quotations are somewhat higher than this). But one thing is certain, our agricultural purchasing prices between 1975 and 1980 cannot be regarded as less deviant compared to the prices we could get on the world market than the Common Market average. Indeed, since it is not probable then that the situation is any more favorable for us, for the drop in external market prices experienced recently--which reached 10-15 percent per year for our chief export products--has been accompanied by an average 5 percent per year increase in purchasing prices (a total increase of about 26 percent compared to 1979), while the member countries of the EC have tried to moderate the increase in their domestic agricultural producers' prices.

In 1979-1980 the degree of the average price level deviation in the member countries of the EC was 18 percent for grain types and 29 percent for products of animal origin. Prior to the 1980 price adjustment these ratios were 7 and 37 percent respectively in this country. The larger magnitude price level deviation from world market prices in animal husbandry is also an expression of efficiency differences in the two chief branches (the more favorable situation for grain types and the less favorable situation for animal products).

All this puts a different light on the judgement of the domestic agricultural producers' price level. It suggests that the international comparison of national producers' prices used by Miklos Mentenyi would be justified only in the event of a correction of the price structure differences deriving from accounting relationships or solving the foreign exchange recalculation problems, and even then primarily in regard to agricultural exporter capitalist countries similar to our country--those where agriculture has a similar role and weight in export. When classifying price level differences we cannot ignore differences in the productivity of work, the distribution relationships (national financial systems) or income relationships (the standard of living) even when worthwhile conclusions can be drawn from the national value processes and real processes combined.

In Regard to the Problems of Competitiveness and Agricultural Prices and Supports

Economic competitiveness is an objective category, the measure of it is the export price which can be realized in the external market and the form in which it is manifested is the relationship of production costs to market prices. From the viewpoint of our economic development what is determining is where and how the production costs of the products are returned in the export prices which can be obtained, which products generate foreign exchange most favorably and what the supply of these products is. The lower we put the limit of return the more goods have to be exported to obtain the same volume of foreign exchange, and vice versa, the higher the efficiency requirements we pose in export, the broader the commodity scale or the greater the volume which we can produce at a favorable cost compared to the external market prices.

So the criteria of economic competitiveness appear in the market possibilities and in the need for a realistic internal calculation system for costs (the measurability of the economicalness of export). What is crucial is that there be a market to receive our products intended for export, a market with price conditions which are favorable in comparison to our costs, and that we have a method of calculating the real costs--less distorted by supports or purged of them.

In regard to the development of our national economy it is of key importance how these viewpoints of judging our international competitiveness are realized in agriculture, for even now one third of the production of this branch is sold on the external market (one quarter of the total export of the national economy), and the extra production of agriculture will serve export goals almost in its entirety. So in Hungary the budget should not have "spectacles" through which this export is viewed as expensive--"we receive less for it abroad than we pay for it here at home"--and which also disregards the problems of placing it.

The much talked about export-oriented development of the branch cannot do without a clarification of what possibilities there are and will be for the marketing of foodstuffs products on the capitalist market. The non-ruble accounting export and net foreign exchange yield of the foodstuffs economy increased significantly in recent years in the socialist relationship; the capitalist market placement possibility of it (export to the EC countries) stagnated. So the question arises, if the agricultural production of the Common Market increases further--in the way outlined in the article--whether we will be able to maintain the level and how, with the sale of what products, will we be able to maintain the level of export in this relationship which, counting the import of foodstuffs and agricultural and foodstuffs industry tools of production (machines, equipment, parts, chemicals and industrial protein feeds) from there, even now provides only one fifth of the non-ruble accounting net foreign exchange yield of the branch.

It is very probable that the question of solvent foodstuffs markets representing possibilities for acquiring capitalist foreign exchange will appear even more accentuated in the future, since our free exchange marketing possibilities on the Soviet market (which were virtually unlimited, especially in 1980-1981, and

proved good even in 1982) are constantly decreasing. The favorable foreign exchange situation of our partner--due to the second oil price explosion and the import costs of the Soviet Union which increased by 40 percent as a result of the American grain embargo--aided our sales in 1980-1981, but the moderation or elimination of these effects hurt our present and future prospects and make uncertain about 70-80 percent of the present non-ruble accounting net foreign exchange yield of the branch.

Table No 2. Distribution by Relationship of the Non-Ruble Accounting Net Foreign Exchange Yield of the Foodstuffs Economy

<u>Relationship</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Socialist	45	55	63	81	77
Non-socialist	55	45	37	19	23

Source: My own calculation from data in the "Foreign Trade Statistical Year-books" of the Central Statistics Office, in which I mean by net foreign exchange yield not the traditional calculation method--the export-import balance of the foodstuffs economy--but rather the balance of the export of the foodstuffs economy and the import of foodstuffs--with the exception of the import of raw coffee, cacao, spices and tropical fruits--and the import of direct industrial tools for the foodstuffs economy (chemicals, industrial protein feeds, machines, equipment and parts). For the relationship (socialist, non-socialist) breakdown I started from data by country at the product level, since more comprehensive information was not available at the branch level; a breakdown of trade by foreign exchange group (ruble and dollar and other accounting) is similarly characteristic of the information used and published.

So the doubts about whether the increasing supply of our agricultural products can be sold primarily under western, or at least non-ruble accounting, conditions are not groundless. Can an increase in production oriented towards the external market take place in accordance with what has been, with a deterioration in efficiency (as is felt by a broad circle of agricultural public opinion), and will this make possible the acquisition of extra capitalist foreign exchange, which is absolutely necessary for importing tools suitable for a technological renewal laying the foundations for an improvement of the export readiness and competitiveness of the processing industry?

If the country is to achieve the economical import of certain products there will be a need for the export of other products which can be produced more economically here at home, in order to exploit the comparative advantages. If the latter condition is lacking then we must export, in return for the indispensable import (raw materials, the modern machines needed for development, etc.), what we can do without at home and what can be sold abroad, however bad the terms of trade are. Being forced to give up the comparative advantages--even trusting in the temporary character of this--will strengthen the process of indebtedness, via the deterioration in the terms of trade, and contribute to increasing our relative backwardness as measured by the developed capitalist countries. So to the extent that and as long as we are forced to produce a good part of the foreign exchange necessary for capitalist import by exporting agricultural products we must treat an improvement of the economic efficiency

of the branch as a problem of equal rank with an expansion of the export commodity base, in regard also to the fact that serious placement problems may get mixed in with our external market price realization problems.

Given our serious economy problems connected with placement and our export price losses I consider unacceptable any proof of the "disadvantages" of domestic agricultural production which argues that "we are not more expensive than our competitors, but even with lower production costs and fewer supports than our competitors we get less for our products in foreign trade and from domestic consumers than the products cost, and less than our competitors get".

Not only because the "advantages" mentioned in the article, which prove unrealizable, make very doubtful the statements pertaining to production cost and price level, but also because the foreign trade prices appear for us as an objective given, so they cannot be blamed. In the case of our products which are sold on the external market with a large price loss our possibility of choice (if any) appears only in whether we should bear our losses as the "price of export orientation" or should try to reduce them, and develop a more efficient export structure. At present this area of issues causes a problem only at the level of the national economy; as a result it concerns not the leaders responsible for production but rather those guiding the national economy, since the budgetary supports relieve the producers of the losses of external market sales and so to a large extent they do not take cognizance of them.

The situation is similar in the case of the domestic consumers' prices for foodstuffs. In our price system these do not constitute an objective demand limit on producers' prices, set by the value judgement of the consumer, although standard of living policy considerations put a limit on raising them. Thus, in many cases (for example, in the case of milk, meat and some poultry and canning industry products), the consumers' prices are lower than justified by the production costs of agriculture and the foodstuffs industry, and the budget bears the burden of this--in the form of consumers' price supplements.

The level of export prices and of domestic consumers' prices has no effect on the level of agricultural purchasing and foodstuffs industry producers' prices determined by the costs of the producers; thus the producers have no interest in reducing the "subjective" element of the price (which could be affected most of all), the production cost.

In the related branches of the agricultural-industrial sphere, reducing the production costs or a development of the costs which adjusts to demand for the final product, is of crucial significance. The external market price realization and placement possibilities and the limits on domestic solvent demand urge the development of (market) prices which take into account the cost bearing capability of final use, in the production of agricultural tools of production, agricultural products and foodstuffs industry products alike, which offer a chance for repayment of the costs on the basis of the market value judgement, in contrast to the present price and supports system which has a balancing character.

Unfortunately there is little literature or agricultural economics which researches the possibilities of realizing market prices. It appears that more people are looking for answers why market prices cannot be realized in the foodstuffs economy than researching how--with what branch peculiarities--the market effect can be realized.

It must be seen clearly that in the stagnating situation of the national economy, which appears to be lasting, the agricultural price and supports system, which occurred as a very strong agricultural protectionism linked to the turn in agricultural policy in 1968 and to the efforts to industrialize agriculture, is no longer realistic; a gradual inclusion of agriculture in bearing the common burden cannot be avoided. In the past decade, compared to our economic resources and industrial development, the agricultural supports system represented a substantially greater effort for us than the higher supports of Western Europe or the United States, calculated per agricultural employee. The supports system as a whole and its price supplementing character balancing out the production costs, played a crucial role in the fact that efficiency systematically and greatly deteriorated and that a one-sided quantitative view of increasing production could come to the fore. Such broad supports--coming to about 10 per cent of net national production--have not been realized even in the most highly developed capitalist countries which could bear the supports burden of the branch easiest. In this respect the author of the disputed article neglected to make a comparison.

Just as he ignored the fact that not one of the developed capitalist countries studied has as acute economic problems as our country. These problems cannot be remedied with the branch (industrial and agricultural) protectionism characteristic of earlier historical phases of our socio-economic development, rather they presume a realistic economic policy which does not give preference to economic branches but rather mobilizes for production of ever more economical export products, independent of the branch to which they belong.

Our further development will stand or fall depending on whether or not a structural change adjusting to market demands takes place in the production sphere. Will we be capable of implementing economic regulation which can transmit this important economic expectation by means of the enterprise interest self-regulation? Will we be capable of solving (or keeping within the limits of social tolerability) the peculiar contradiction that those steps which might have a truly worthwhile effect in the longer run increase the tension in the shorter run--because of their restructuring effect? These steps include the need to end the producers' and consumers' supports as a condition for developing market prices; within the foreseeable future one cannot imagine this without a mitigation of the consumers' price straining effect of the producers' price level, a gradual elimination of production supports without price compensation and a mobilization of efficiency reserves.

To sum up, the justification of the international comparison of national producers' price levels (production costs) used by Niklos Mentenyi is questioned and his conclusions are made of dubious value by the fact that he ignored the fact that the producers' price levels of the several countries are not independent of the internal price, tax and income parity problems attached to them,

not independent of the income distribution policy of the states, the peculiarities of the national financial systems and the price structures which differ for different branches, which in essence establish the mechanism in which the economic policy (agricultural policy) of the states can function.

The price level differences deriving from ignoring the foregoing in the calculation, even if they were so "advantageous" for us, cannot be ascribed to the better costs management, higher efficiency and competitiveness of our agriculture. This simply hides the reality which derives from the different economic, technical and natural conditions of the countries compared and from the differences in their productivity level, income relationships and standards of living--a reality which can be called favorable for us in a limited way for at most one or two products (for example, grain types). Unfortunately the picture is made even worse if we study the branch taking into consideration its place, role and significance in the economic development of the various countries.

A judgement about the "international competitiveness" of the branch which is ripped out of context and divorced from market relationships and price realization and placement possibilities is misleading and is even irrelevant from the viewpoint of our economic situation and development. Our international competitiveness--and the pledge of our development--is made up of how the individual costs of the products are returned in the external market prices. If the costs of generating foreign exchange in the export of a branch are higher than the national economic average (independent of whether this is caused by a higher cost level or a depressed price or both together) then a good part of the export of the branch (perhaps more than half of it!) simply cannot be competitive and so the branch cannot be either.

I also consider dangerous from the economic viewpoint the concept of international competitiveness figuring in the disputed article, since it encourages a sort of self-satisfaction and tries to find an explanation of our internal problems in the external, objective circumstances (in the "depressed" world market prices) instead of seeking a solution in our own--production cost reduction and structural--possibilities. It disguises those problems within the export-oriented development of the foodstuffs economy and its production growth which hide in the external market sales difficulties and uncertainties and in the limited price realization possibilities and which urgently necessitates a change in the previous quantitative view in production and export alike.

The stagnating situation and increasing problems of our economy presume a turn in economic policy which in the future will facilitate the structural accommodation to the real market conditions instead of branch protectionism and will give preference to the production of products which can be exported ever more economically. Since the viability of ideas pertaining to the development of the economic mechanism appears also in the tension-increasing role of their restructuring effect, the exploitation of the efficiency reserves in the economy and a moderation of the power of producer price level increases to strain consumer prices cannot be delayed. Especially not in the case of a branch like the foodstuffs economy where the behavior shown in regard to producer prices and supports in many ways influences the magnitude of the consumer price increases for articles the stratum effect of which to a large degree tests the toleration of society.

FOOTNOTES

1. "Is Hungarian Agriculture Competitive Or Does It Produce Too Expensively?", KOZGAZDASAGI SZEMLE, 1984, No 2.
2. The bourgeoisie and Marxist concepts of "value creating work" define these processes differently.
3. But even this is not so unambiguous, for under capitalist conditions the wage is an income element or a cost element of the price depending on whether the production is done by the owner himself (in agriculture, for example, by the farmer and his family) or whether the owner merely benefits from his capital (his land) (for example, in the capitalist lease system of agriculture), which complicates a comparison of production costs.
4. Because of this unique value determination capitalist agriculture realizes a "false" value, that is, in the exchange between industry and agriculture, agriculture constantly "syphons off" surplus value from industry. (See K. Marx, "Capital," Book III, Kossuth Press, 1974, pp 584-638.)
5. Let me note that if we perform the comparison of the producer price level of agriculture not with the average foreign exchange generation of industry (at the rate of exchange of the given year) but rather with the good bit higher agricultural multiplier (now, for example, 65-70 forints to the dollar)--and why should we not--then we might see the price level difference of Hungarian agriculture in an even more "favorable position" compared to the national producer prices of the capitalist countries, although the situation is the other way around; a higher domestic producer (purchasing) price level compared to the export prices which can be obtained leads to a somewhat worse foreign exchange generation, which certainly is not a sign of our "increasing" international competitiveness.
6. Lajos Osvath: "Our Rate of Exchange Policy in an International Comparison Between 1968 and 1979," KULGAZDASAG, 1980, No 12, pp 25-27.
7. Sandor Meszaros: "Efficiency Indexes in Dutch Animal Husbandry", GAZDALKODA, 1981, No 6; "Planning Parameters of Animal Husbandry" (MEM-ATMI material).
8. After a sharp debate lasting until the end of March 1984, the Brussels summit conference came to an agreement of historical significance concerning agricultural prices and reforms; in addition to a 1-percent reduction in product prices for 1984 it was decided in principle to establish a mechanism which would ensure over a 3 year period that agricultural expenditures should not exceed the increase in the receipts which can be turned to this (duties, fees, added value taxes). The agreement made it clear that in the future agriculture cannot count on an unambiguous backing for supports for its products, that agricultural receipts must take second place in the complex balance of consumer and community needs. (Ivo Dawney: "Agricultural Agreement in the EEC," FINANCIAL TIMES, 3 April 1984.)

9. If the market mechanism had permitted a shift in comparative costs between agriculture and industry then--as the authors of the cited article establish--the income differences between city and village in Japan, and thus the crowding of the rural population into urban agglomerations, would have reached a magnitude which would not have been socially or politically acceptable. So Japan reduced the costs of the accommodation process between the sectors with assets turned to the protection of agriculture.

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GUIDANCE MECHANISM OF ENTERPRISES VIEWED

Budapest KOZGAZDASAGI SZEMLE in Hungarian No 10, Oct 84 pp 1154-1167

[Article by Vilmos Saghy, retired minister: "Concerning the Mechanism for Guidance of Socialist Enterprises"]

[Text] The mechanism for guiding or directing enterprises is a much debated theme today. To a large extent the mechanism is a function of whether we consider primary the long range success based on competition among the tasks of the enterprise or the production, trade, developmental and other goals expressed in kind. Defining the task also determines the forms for exercising ownership rights. If the chief task of the enterprise is fulfillment of goals expressed in kind then these goals must be defined centrally, the production factors must be distributed centrally and the leaders must be appointed centrally. In this case the commodity and financial relationships can receive only a subordinate role; enterprise independence is limited essentially to developing and organizing the technique or technology of production, marketing and development.

But if performance results stand in the center of enterprise activity then state guidance can have a theoretical, indirect, shepherding character and a large part or all of the ownership rights can go to the enterprises--into the hands of the enterprise collectives, the enterprise leadership or the enterprise guidance and control institutions. A task definition concentrating on results is also accompanied by maximal independence of the enterprises, the presence of real commodity and financial relationships and the automatic flow of production factors.

The starting point for development of optimal guidance and leadership corresponding to the goal is how the rights, tasks and responsibilities are divided up among the potential players in guidance and leadership.

In the practice of existing socialism the participants in enterprise guidance and leadership which characteristically have different roles and often opposed interests are:

--the enterprise collective,

--the enterprise leadership (leading group, management),

--the institutions guiding and supervising the enterprises (director's councils, enterprise councils, supervisory committees), and

--the socialist state.¹

This grouping of the participants in guidance and leadership also means that by virtue of the above division of roles conflicts of interest are manifested and clash at the level of the enterprises, regionally and nationally, and--in the optimal case--the social interests can win an open, synthesizing debate.

In what follows I intend to deal only with the guidance and leadership of enterprises functioning in the competitive sector of state industry.

Concerning the Enterprise Collective

Recently there has been much talk about the development of democracy in our economic life both in political and economic literature.

"The goal is the liberation of the creative energies slumbering in the human factor in the interest of overcoming our economic difficulties as soon as possible and accelerating the further development of society. This is one side of the coin, the other side is to ensure to everyone who wants to take advantage of it the opportunities for an active, meaningful life" (18, page 19).

The guarantors of economic democracy are the collectives and social organizations. "The activity of the collectives and social organizations must extend to representing the interests of the workers and to active participation in management....

"The 'theme' of the continual dialog among the workers, the small collectives and the enterprise is a double one: on the one hand to ensure the material, organizational and incentive conditions for ever more effective work and on the other hand a just, economically founded distribution of incomes. Both have daily and more distant aspects. If the dialog is to be successful, the collective must have access to a large volume of correct information and to the various possible ways of solving the individual tasks. Without this the more or less 'lay' collective called on to make the decision or at least to give advice might become the prisoner of the 'special apparatus.' Two things can make it possible to avoid this dependent relationship: on the one hand if the interest of the leadership staff of the enterprise is obligated to really taking the opinion of the collective into consideration and, on the other hand, if the workers of the enterprise have a way--in an appropriately developed system--to exercise an effective and strict supervision over the 'special apparatus.' The social organizations operating within the enterprise must be prepared--structurally, in spirit and in the methods of personal selection--to carry out in a worthy way this complex task demanding great expertise and devotion.

"In whatever form we build up the active participation of the workers in the internal guidance of enterprise management, in selection of the leaders and in aiding and supervising their work, the usefulness of the participation will be determined by the maturity and informed nature of the enterprise collective and by correctly developed cooperation between the workers and the professional leadership of the enterprise" (18, page 19).

I quoted this passage at such length because I believe that this formulation is one of the best expressions of the present interpretation of place of work democracy. But in addition we must examine which solutions prove most useful in view of practice. Is it correct, for example, for the body elected to represent the collective to simultaneously exercise the most essential property rights and represent the interests of the workers?

Place of work democracy is an important element in the "liberation of the slumbering creative energies" but a condition for the success of this effort, a condition which precedes place of work democracy, is reducing the many types of restrictions today, the regulatory bureaucracy, above all the restraints of wage and price regulation. And these restrictions can be eased only if we develop a decision-making practice based on competition and concentrating on results, if a new situation is created which puts a limit on efforts to increase prices not justified by the market, develops restraint in raising wages and holds back expansion efforts which cannot be justified by results.

Since today the plan figures for wage payment and investment are regularly exceeded--despite the over-regulation and many types of informal intervention--we must think through what will happen if the interest of the leadership staff of the enterprise is obligated to "take into consideration in a worthwhile way the opinion of the collective." And if fear of inflation and excessive wage payment forces the central organization to maintain or even increase the present regulatory bureaucracy then we will lose much more on the swings than we make on the merry-go-round. So we must clarify what the role of the collective will be in exercising property rights, who will represent worker interests and how.

Let us look at the various problems in detail:

a. The Trade Union

In the useage of recent years the trade unions are generally regarded as the representative of the enterprise collective. Although this is not exactly true at the present level of organization still we must make a distinction in substance between the rights and obligations of the collective in connection with the exercise of ownership rights and the representation of worker interests.

As owners they must demand long term results or an increase in property coupled with maximal efficiency, while the worker interest representation is directed at getting better earnings, improving working conditions, higher social allotments and preservation of jobs, starting from the ability of the enterprise (or at the regional and national level, the economy) to bear the burden and as a result of a bargain made with the enterprise lead. These are contradictory interests, which cannot be represented in a single organization--without harm to one side. The role of the trade unions must be formulated differently, and we must regard as different the tasks of that body which participates in guidance and leadership.

A publication of the Social Sciences Institute of the MSZMP Central Committee titled "Factory Participatory Systems in Contemporary Capitalism" may provide some orientation for formulating the role of the trade union. This careful

work summarizes as follows the forms and possibilities, used today, of operational participation, going beyond the traditional interest representation tasks:

"On the basis of experience we can talk of production-oriented and power-oriented participation.

"Production-oriented participation means participation of the workers in the formation of direct factory, production contacts. This is a possibility for having a say in solving questions which affect the workers daily and directly (work organization, work time assignment, rest time, work techniques, work discipline, leave, training, working conditions, worker protection, etc). Production-oriented participation encourages efficient execution of tasks in such a way that the executor has a say in developing the modalities of the solution, trying in the meantime to realize the interests of the workers.... Production-oriented participation works in practice, the institutional system is spreading and the results of it can be demonstrated for workers and the leaders of enterprises alike" (16, pp 121-122).

In what follows the study establishes that power oriented participation "... is always accompanied by responsibility, and is problematical because of the responsibility and the property relationship. In general the workers and the trade unions do not assume responsibility because of the capital property--or even the guaranteed shares--but may strengthen supervision" (16, page 122).

The study also establishes that power-oriented participation has not succeeded, or has not always been advantageous for the workers, where government decisions to this effect have been made.

"Amidst capitalist relationships the leftist French trade unions have rejected joint leadership in the enterprises and participation accompanied by responsibility, and they are primarily attempting to strengthen the positions of the workers and to establish democratic supervision" (16, p 124).

Of course, the cited study outlines the present situation starting from capitalist property relationships. Here, on the other hand, the most important tools of production are public property.

For a long time we thought that, starting from the public ownership of the tools of production, the most modern interest protection would be to encourage the workers to do more and better work. But a more fundamental examination shows that in the process of creating value the other elements of leadership and guidance, especially the enterprise leadership and state guidance, have a determining role, most often a greater role than those working in direct production. This also means that worker representation is of crucial importance vis-a-vis that management and state guidance which has the greatest influence (which I will prove) on the net production or results of the enterprise. It is not certain that the trade unions will be able to represent worker interests well if the earnings level or working conditions must be debased or jobs must be eliminated because of decisions in which the trade union has also participated. It might be more correct if--to the degree that competition and management trying to increase results develop and at the pace at which it is possible

to eliminate the present management restrictions, that is, to the degree that enterprise independence increases--they represented direct worker interests with determination, more strikingly than at present, for in the new situation much more may depend, for example, on the enterprise leadership than did earlier. This would be compatible with developing their production oriented participation within the leadership with the content outlined above, because this also could contribute to increasing earnings and improving working conditions.

Strengthening the supervisory functions of the trade unions is very important. One method for this might be participation in the supervisory committee.

b. Concerning the Collective

One criterion of an enterprise is that "...the enterprise is a working collective. In an enterprise manpower is united with the tools of production; it is an indispensable criterion of an enterprise that it has a collective which does the work" (11, page 289).

Before I turn to the concrete modalities for exercising ownership rights, let me note that in the future--if management based on competition and striving for results can develop--we probably cannot count on that stability of the extent and homogeneity of the collectives which we got used to in earlier decades.

If we take seriously that a flow of production factors, including manpower, is necessary to maximize achievement, then the number of workers in the various plants may go through significant changes (may increase or decrease).

In connection with this theme I would like to deal with a few peculiarities of full employment and the right to work.

Data for 1981 record 5 million active earners. A total of 350,000 of the population of working age (85 percent of them women) do not work, so in essence we have full employment. But the question arises in this connection: What does the right to work or the obligation to work actually mean?

The Constitution speaks definitely of the right to work; other regulations also recognize the obligation to work. From the viewpoint of our theme I would like to note only that if everyone made use of the right to work then our level of productivity, already low, would suffer a serious blow.

Our level of employment, taking 5 million active earners as the base, is largely identical with that of the socialist countries, but is higher than the capitalist average. The difference is primarily in the level of employment for women.

In many cases large scale employment of women derives not from love of a trade or mission but rather is simply because the family needs the earnings of the woman. The situation is serious in the case of those women for whom house-keeping and the tasks of maintaining a family represent special burdens (there are many children), and neither other family members or paid employees can take over the burdens. Unfortunately, in such cases, either the job or the family (or both) suffer for it.

Active Earners as Percentage of Total Population

<u>Country</u>	<u>Year</u>	<u>Men</u>	<u>Women</u>
Austria	1975	55.2	32.5
Belgium	1977	54.3	28.9
FRG	1978	57.5	31.6
France	1976	54.6	29.6
GDR	1978	54.8	48.4
Hungary	1978	54.7	40.8

Source: International Statistical Yearbook, 1981, Central Statistics Office, p 47.

Although it has been established many times that full employment is not an enterprise task but rather a social (state) task, even today we frequently meet with the opinion that ensuring full employment places an obligation on the enterprises as well.

Would there be unemployment if we changed this, and if so then what should we do? It is difficult to answer this question. In the first place it must be seen that a tangible conservation of manpower can be achieved only on the basis of a significant further development of the economic mechanism and institutional system. Many years will be required for this. So it will be many years before we go from the present over-demand for manpower to a state of balance.

It will be at least a good many years before we can count on an over-supply of manpower in our country, and then we can and must decide what methods to use against it. Today the chief task is not this but rather solving the regrouping of manpower.

Various entrepreneurial forms within and outside of enterprises have developed in recent years. The most extensive of these are the economic work associations, which--unfortunately--cannot be regarded as true undertakings, for essentially they undertake no risk. The subsidiary enterprises also are only formal and cannot be regarded as an essential change.

The development or further development of real undertakings within the enterprises is an extraordinarily important task. Undertakings within an enterprise are spreading quickly in the developed capitalist countries. Production activity is becoming an ever more significant factor too. It will be useful to follow these trends here as well, in such a way that the undertakings extend to main work time activity, primarily where the activity can be usefully separated technologically from the whole, where a broad management responsibility can be realized in each section and where the rights and responsibilities of the enterprise and the undertaking (work group, contract operation, etc.) can be formulated precisely. The agreements should be such that the income of the enterprise will be greater with the undertaking than without.

Small undertakings within an enterprise could also have an important role in training leaders.

A precondition for establishing real--that is, accompanied by risk--undertakings in regular work time is the development of management based on competition and concentrating on results, and simultaneous with this a vigorous reduction in regulatory restrictions. This would make possible performance-based payment of workers outside the undertaking too, thus decreasing the earnings tension between workers inside and outside the undertaking.

Workers of undertakings using the tools of production of a socialist enterprise are members with full rights of the enterprise collective and of the trade union, and so share in every right and responsibility.

Today there are hardly any medium and small enterprises in those trades where, according to experience, only small and medium enterprises can work truly efficiently. For this reason, in order to improve efficiency, there is a need not to merge the achievements of units within the enterprises in the whole, there is even a need for initiatives from below to make sections (factories, sites, warehouses, stores, etc.) independent or attach them elsewhere. The one taking the initiative could be the leader of the unit, the social organizations or the director's council of the enterprise. The administrative order for separation should be clarified and protection should be given to those taking the initiative.

Although in the case of competitive enterprises we are talking about a collective which changes in extent and is frequently heterogeneous in composition, every member of the collective should have the same rights in regard to strategic property. The only big question is whether these rights pertain to giving an opinion or to making a decision and, further, whether the decision is made indirectly (through a representative) or directly.

Before I turn to a discussion of these themes, let me note that in regard to ownership rights within the collective the leadership (management, directorate) enjoys a unique position. The extent of this varies from trade to trade and from enterprise to enterprise. One can say in general that this hierarchy includes all those leaders of certain functional units, sites or factories) whose influence on the operation of the enterprise is especially great. This group works out a large part of the proposals in the arena of strategic property on behalf of the organizations making the decisions, and it exercises the tactical ownership function; the members of this group are those who manage and lead concretely and survey the market needs; they must see to it that the factors for production are available in the optimal quantity² and quality and are available in time; costs management is in their hands, they organize the work, maintain the domestic and international contacts of the enterprise, and so forth. Thus this group--though a part of the collective--is an independent element of guidance and leadership, with unique goals and interests. So it is justified for this group to have a special professional interest representation.

But let us return to the ownership function of the collective! The Hungarian trade union movement--to its credit--has dealt actively with how the ownership awareness of the workers might be developed.

Every experience indicates that to a large extent the forums of factory democracy deal with earnings possibilities, working conditions and social allotments. In an article titled "Factory Democracy and Interest" in NEPSZABADSAG Lajos Hethy records the experiences thus: "Workers really can be brought in to help develop wage and work conditions; their worthwhile participation in making strategic economic decisions can be proposed only as a distant goal" (4). This is the situation even in the producer cooperatives. To a large extent the debates involve concrete earnings possibilities, social allotments and working conditions, an area which belongs to worker awareness, and they touch on management as a whole only in exceptional cases.

One might think that in Yugoslavia, where self-management can look back on several decades of experience, a more comprehensive, true collective ownership awareness could have developed. But experience contradicts this hypothesis. "According to the empirical research of Yugoslav sociologists self-management (the activity of the workers' councils) is mostly limited to debates about the level of wages" (13).

Of course, in the complicated global economic and internal economic situation of today surveying the needs of the market, organizing firmness in the competition, developing the optimum proportions of the necessary production factors, proper work organization, constant introduction of innovations and ensuring delivery discipline--to mention only the most essential things--are not always done successfully even by leaders with special training, great experience and much information who deal only with these matters as their main job. Even they waver and are uncertain. How can we demand worthwhile input from the workers?

"In this connection it is clear that socialism is not a homogeneous society but rather a differentiated society in which the majority lives and works as wage earners without exploitation. Only rarely can self-awareness bridge this relationship. It is not a sign of moral backwardness if a subordinate worker can identify with the tasks and problems of the work site as a whole less than the leader. One can only expect as the natural and average behavior that basically everyone will think as he acts. He who operates a lathe will be thinking on a different level than one who leads a factory" (15, page 55).

If this is the situation, if decades were not sufficient for the collective to become a worthy partner of the leadership in solving complex problems at the enterprise level, then the direction of the tasks for the future must be determined starting from this. It must be recognized that the collective--within a trade union organization or outside of it--will deal primarily with themes belonging in the trade union sphere. These themes should be left in the sphere of the trade union--as such--or made a function of the outcome of debate between the trade union and the enterprise leadership.

If we agree that the trade union should do its own thing, then the next question arises. Can decisions in basic ownership rights--for example, appointment of leaders and distribution of income--be left to the collective alone or to a body elected by it, presuming, of course, that we take this decision right seriously? By taking it seriously I mean, among other things, that on the basis of the developing competition and management reaching for results the present

restrictions (on prices, wages, imports, investment, etc) will greatly decrease, the possibilities for independent enterprise decision will increase and, the selection of leaders will be real, so the collective may vote secretly for several candidates. It is not easy to answer this question.

In connection with the collective's right to make decisions we must actually take into consideration two fundamental problems--the danger of distortion and the danger of formalism.

If we permit everything then the danger arises that greater personal income today will be placed before long-term effectiveness, which will encourage inflation, obstruct the flow of assets, leaders will be chosen for these purposes, etc.

The danger directed at preventing this is formalism, that as a defense against distortions the central power will maintain or even broaden the regulation which is excessive today (before all else the wage, price and investment regulation), develop a broad support and withdrawal system, begin to limit the decision rights of the collective, introduce formal elements into the democratic process, and so forth.

When absolutizing the decision-making rights of the collective some experts have in mind the cooperative system, especially the agricultural producer cooperative system. In the cooperatives at present, the collective elects the leaders, approves the plans and thus--in any case formally--makes decisions on the main strategic questions. But all this happens under the present conditions of over-regulation and large scale state supports and withdrawals.

Essentially the same regulation that applies to the state sector also applies to artisan producer cooperatives and the general consumer and marketing cooperatives. In the producer cooperatives wages and earnings are regulated with essentially the same strictness as in the state sector. Eighty-seven percent of the agricultural prices are regulated by the state (14). The extensive central state supports for agriculture in the hands of central regulation are a great force.

In addition to all this there is party authority and the informal intervention of the cooperative federations.

In the course of interviews with leaders of general consumer and marketing cooperatives the following opinion was voiced about this:

"In a number of questions the federation is not an authority, on paper it is only an organ giving an opinion; yet in general this opinion or proposal is realized by the authority.

"The majority of the responding cooperative leaders see one of the fundamental reasons for the hierarchic relationship in the livelihood dependence.

"The pay and allotment 'proposals' worked out by the business apparatus of the federation are harmonized' with the KPVDSZ [Trade Union of Commercial,

Financial and catering Industry Workers], the county council and other local organizations, avoiding the cooperative ownership organizations, and then this 'proposal,' finalized behind the backs of the cooperatives, is submitted to the cooperative membership, who are faced with a fait accompli as a result of an 'upside down' decision-making process" (12).

We must put an end to over-regulation and formal intervention by the authorities, or with an authority character, and in its place there must be self-restraint and self-regulation starting from an attitude which concentrates on increasing results.

So I would answer to the problems formulated in the foregoing that in the future also it will be useful if the minor or major collectives of the enterprise develop their opinions about the management structure and the leaders with the purpose of having elected leaders of the collective to present this opinion in a leadership body (for example, in the director's council) where these opinions can clash with the opinions of the experts, the state and social organizations and the enterprise leadership. The actual participation of the enterprise collective in strategic ownership would be aided and one could develop a useful system for informing and educating the enterprise representatives.

The Role and Special Interests of the Leadership

In the foregoing I already talked about the leadership as a group of the enterprise collective which occupies a unique position in the division of labor and has interests corresponding to this.

It counts as a commonplace that with the end of the extensive phase of management, the accumulation of new value is largely a function of innovation intensity broadly interpreted.

And the source of innovation is before all else the leadership which, by virtue of its position, is capable of reviewing the elements of innovation, developing combinations of these elements and guiding the process. The leadership can greatly multiply or reduce to a fraction the efficiency of the production factors used.

It is well known that in capitalist countries the most important ownership function is the selection of leaders. Much domestic data and an international comparison prove the special significance of the leadership.³

It is also well known how we are hurt by low quality and late delivery. A situation has developed where they speak of an "Eastern discount" in the commercial circles of capitalist countries, meaning by this the concessions made to compensate for the various weaknesses of the socialist countries. (21)

International experience indicates that 80 percent of the losses connected with quality and late delivery can be put to the account of the leadership (22).

I believe that these examples (and the personal experiences of so many) should convince us of the special role of the leadership.

To what extent do the material and moral recognition of the leaders and the system of leader selection reflect this special position? Let us look first at the material situation of the leaders!

Since the take-over of the overwhelming majority of the tools of production our society has taken great steps in the direction of income equalization. In 1930-1931 the one fifth of the population with the largest incomes disposed of 10 times as much personal income as the one fifth with the lowest incomes. By 1967 this figure had been reduced to 3.2 times. For purposes of information I should mention that according to 1975 data for the United States the difference between the upper fifth income group and the lower fifth income group was 12-fold (3, page 44).

Although the spread of personal incomes within a group that is one fifth of the population can be very large, the data illustrate well the trend of income equalization.

In the last 10-12 years the differences between the lowest and highest income groups decreased further. To further refine the calculation and break the income groups into ten parts, the difference between the lower and upper tenth decreased from 5.8 times in 1962 to 4 times in 1980 (10). Other data also indicate a levelling of incomes.

It can be established from what has been said thus far that by the middle 1960's we had largely achieved a levelling of incomes which more or less corresponded to our level of development. Following this, however, an additional vigorous levelling occurred the correctness and usefulness of which is very debatable.

The additional levelling occurred under conditions where new tasks and burdens greater than before were falling on the enterprise leadership.

It is obviously wrong that the difference between the average earnings of a skilled worker and a director general (or director) is hardly more than two times and the difference between the average earnings of a foreman and a shop chief is only 27 percent. This minimal difference means that there are many skilled workers who earn more than a foreman or shop chief entrusted with the guidance of perhaps 50-60 people, who has the task of demanding adherence to the technology, checking and maintaining quality, demanding work discipline, differentiating earnings according to work done, firing those who do poor work, seeing to adherence to delivery time limits, and so forth. If it is true that the leaders have a special role in producing results (they can increase or decrease the results to a greater extent than they earn) then we must draw the consequences of this in rewarding them also.

Keeping economic democracy on the agenda--whether they want to or not--affects the behavior of the leaders, the strength and consistency of their efforts directed at maintaining discipline and order, at reducing production costs and at the performance requirements. The constant deficiencies appearing in delivery times and quality requirements and the frequently unjustified increases in production and other costs indicate that all is not in order in leadership behavior. It follows from this that the development of economic democracy simply cannot be accompanied by a decrease in leader prestige.

In his article titled "Concerning Prestige" Engels noted that there can be no industrial production without strict subordination and superordination relationships: "He who wants to erase prestige in large industry wants to erase large industry itself; he wants to destroy the mill working with steam and return to the spinning wheel" (1, page 291).

"So it must be seen that a certain prestige on the one hand and a certain subordination on the other are things forced on us, independent of the social organization, by the material conditions amidst which we produce and sell our products" (1, page 292).

If this was so 110 years ago, how much more it is so in the age of nuclear energy and robot technology! We must create a situation in which results are the measure of the work of the leader, and neither loyalty to superiors nor loyalty to the collective should prompt the leader to neglect or reduce the discipline, order or the performance requirements. Of course, such requirements can be made only by leaders who take care in time of a market for the products, the technical plans, maintenance and materials, thus of every condition for work. The collective will agree with the performance demands of such leaders, because in this case--if regulation is rational--performance can increase and so earnings increase also.

One of the chief problems of leader selection today is that in general it draws from the narrow circle which can be known to those preparing the cadre development plan. There are many subjective elements in it and it is not at all certain that those included in the cadre development plan actually have the necessary preparation, entrepreneurial ability and innovation sensitivity.

Nor does the evaluation of leadership work rest on reliable foundations. In principle the moral and material recognition of leaders and their opportunities for promotion depend on how the leader meets the requirements. Naturally among the requirements there is always a formulation of the ever more efficient operation of the given economic unit too. But beyond this there is also a formulation of various social "expectations". Since, however, efficiency cannot always be measured in practice, since there is very great scope for explanations and deals in our present regulatory system, the so-called "expectations" become dominant in the judgement. This is an area where an objective value judgement is not always possible. This process or phenomenon has been described by many in many ways, but I think it not superfluous to quote here the opinion of a practicing enterprise leader and of a scientific researcher dealing with this theme.

"...In the intellectual world of Hungarian leaders...the opinions, expectations, expressed or unexpressed value judgements of the superiors, of those higher up, have excessive, virtually crucial significance... Loyalty to the person of the current superior precedes every other factor" (2, page 640).

"There is no other area where the fact whom you know, friendship and official and communication contacts have as much importance as in leadership appointments" (5).

The increased tasks require that we change the present system of leadership selection as soon as possible. In order to solve these tasks we need a changed economic environment and institutional system in which the result reflects the actual efforts, and judgement of the leaders will depend almost exclusively on what results they can produce. If the result reflects the actual performance then it will be possible to separate the strategic ownership rights from branch guidance and entrust them to a director's council (enterprise council) of unique composition, and leader selection can be realized in a competitive system on strictly legal foundations.

We must speak separately about what role the collective should have in judging and selecting the leaders. I believe that the body making the decision cannot do without a knowledge of the opinion of the collective. A person cannot be a truly good leader who cannot get along with the collective. In any case, the opinion of the collective decreases the above mentioned "superior" subjectivism (friendship, who you know, etc.). But we must watch out lest the subjectivism of the collective takes its place!

"Even if the trade union transmits the opinion of its members (which is not at all certain) it can be expected at most that 'popular' cadres will proliferate in leadership posts, although even today we have too many leaders about whom it can be said at most that he is a regular guy. I do not want to cast doubt on the importance of this, but only to emphasize that it is not enough" (5).

I think that the opinion of the collective cannot be decisive in itself in judging and selecting leaders. We should regard it as a correct method if the opinion of the collective becomes known to the institution making the decision.

It follows from what has been said thus far that the leadership (management) is an independent element of great importance in the enterprise guidance mechanism. The basic task of the leadership is to ensure long term results based on competition. In daily business the leadership--independent of the concrete forms of leadership (direct, staff, etc)--must frequently confront the workers of the collective (earnings disputes), and the undertakings within the enterprise just as it must confront those delivering raw materials and the customers, thus every participant in the market. Emphasizing the independent nature of the enterprise leadership and ensuring the necessary prestige on the one hand demands payment (rewards) at a suitable level and, on the other hand, interest protection and legal security adequate to the responsibility and interests.

So in addition to a significant reform of the elements of the economic environment (process regulation) we must give to the leaders, with regulations or in contracts, the (tactical) right to dispose of property needed for independent management. The enterprise leaders should be members of a chamber with more extensive authority than at present, bringing together the entrepreneurs, and at the same time should be members of an enterprise or director's council with strategic property rights. From time to time the leadership of the enterprise might report to the enterprise council about the situation of management and might make recommendations in themes belonging to the area of strategic ownership.

Concerning the Institutional System for Strategic Ownership

If we presume that state administration should not exercise strategic ownership rights in the competitive sector then we must give an answer to the question of who, among the players in the mechanism of leadership and guidance, might be entrusted with this task. For the sake of a logical outline let me repeat that by strategic ownership I mean above all a judgement of all enterprise work covering several years and concentrating on results, setting the trends for medium and long range production, marketing and development, deciding on the chief ratios of income distribution, appointing leaders and exercising the employer rights in regard to leaders in general and carrying out the tasks connected with acquisition of capital, regrouping production factors and establishing new undertakings.

I have already shown that one certainly needs an expression of opinion from the collective but that to rely only on the decisions of the collective is dangerous. It is dangerous because even today the collective does not have the necessary expertise and because, due to its short term interests, serious distortions are possible--in decisions on income use, for example--together with all the consequences (for example, inflation). As a natural reaction to such distortions there might be created a rigidification of regulations or a bureaucracy which would endanger all enterprise independence and tie the hands of creative people. In addition, the need to increase achievement in other areas might lead to conflict with the interests of the collective. An example of this would be the case where manpower must be regrouped.

But these tasks or spheres of authority cannot be put in the hands of the enterprise leadership either, for in the longer run at enterprises that are functioning poorly one must make use of just those ownership rights which require a complete replacement of the leadership, designation of new production or marketing directions, acquisition of capital, regrouping of capital (production factors) and thus a complete reorganization.

Largely the same misgivings could be voiced about a type of enterprise council which consisted of delegates from the enterprise collective, the enterprise leadership and representatives of the social organizations of the enterprise. Indeed, here we must also face the problem that the director or the leader is chosen by his own subordinates, by those in a dependent situation in regard to livelihood. We should expect them to remove the leadership if there are several years without results, make proposals for reorganizing the enterprise and regrouping capital and so forth.

Other factors also suggest that there is need for an institution separate from the collective, the enterprise leadership and the trade union which would have the strategic ownership rights and the supervision connected with this. Creation of such an institution is required also by the new forms of capital flow and capital acquisition (stocks and bonds) which--we hope--will gradually spread. We must start from the position that those buying stocks and bonds must have a place in the strategic ownership system.

I believe that the best method for a solution of strategic ownership would be if we took over--integrated into our socialist relationships--the director's council and supervisory committee system of capitalist joint stock companies (the council to exercise property rights and the committee to carry out supervisory tasks).

For the sake of simplicity I will deal in the following only with the business of the director's councils, noting that supervisory committees working with the director's councils should be organized according to similar principles; the trade unions might have a significant place in these committees.⁴

The director's council form would be applicable to every enterprise. The rights of the councils would have to be circumscribed in high level regulations and in contracts or agreements based on them, with attention to special trade needs. The concrete sphere of authority of the director's council and its links with the authorities, associated organizations, the enterprise leadership, the social organizations of the enterprise, the enterprise collective and the owners of stocks and bonds would have to be set forth in these regulations, contracts and agreements. It must be strictly established where open voting is possible and necessary and where a secret vote must be held and when a qualified majority and when a simple majority is needed to make a decision. The biggest problem would be the composition of the director's councils.

In my judgement studies done by Sandor Kopatsy on this subject might provide some orientation. According to data prepared by the directorates of 552 industrial, financial and domestic trade joint stock companies the various categories are represented in director's councils in the following ratios:

The ratio of director's councils in which a place is held by:	<u>1973</u>	<u>1979</u>
Leaders of other large enterprises	84.4	88.4
Commercial bankers	55.4	43.1
Enterprise legal enterprises	51.7	35.1
Academics, scientists	34.9	51.6
Investment bankers	37.3	25.3
Larger share holders	43.1	32.2
Former government officials	14.4	23.2
Trade unions	--	2.2
Women	10.7	36.4
Racial minorities	8.9	19.2
Foreign citizens	--	16.7
Average annual pay (in dollars)	8,930	12,750
Work hours per year	89	105

It also appears from the survey that the category of leading managers, with a high ratio in any case, and the ratio of scientists and of those with a government past increased in the directorates.

"The study also established that the role of the directorates increased significantly in the course of recent years; they make use much more frequently of the ultimate tool of removing the leaders. One can hardly measure the social significance of these processes yet, but they indicate that more and more the objective experts are able to represent the interests of capitalist property, that it is not the capitalist owners who do so. It could not have been foreseen that more and more the guidance of the joint stock companies would go from the share holders to the guiding experts and that scientists would be the second best represented profession. Thus, he who is a guided leader at one enterprise may be the best guide at another enterprise" (7, page 2452).

Naturally we would need a different composition under our socialist conditions.

The chairman of the director's council would have to be a personality who knew the profession and who had won respect in an enterprise, state administration, social or scientific job. Because of what has been said above, this person naturally could not be the director of the enterprise.

In addition there should be in the director's council representatives of:

- a. the worker collective,
- b. the leadership,
- c. the social organizations, especially the party and the KISZ,
- d. the branch special authority,
- e. the Chamber of Commerce,
- f. financial institutions or the owners of stocks and bonds.

The number involved is naturally a function of the size and importance of the enterprises.

The central state administrative organ dealing with matters of state property management or the branch special authority might appoint the chairman of the director's council, if questions of state property management are involved.

The Chamber of Commerce might see to the appointment of active or non-active members who have prestige in the given trade and who might actually help the work of the director's council. The director's council and the supervisory committee might make use of outside experts--within modest financial framework. The organizations appointing or delegating them could recall the chairman or the members. The assignment of the chairman or members of the director's council would end automatically in the case that they had not made appropriate leadership changes in the event of long lasting failure to achieve results.

It would also be important for the members of the director's council and the supervisory committee to have only modest pay and that their interests should not be opposed to the necessary regrouping of capital; on the contrary, they

have an interest in a regrouping, reorganization, change of leadership, etc which ensured the greatest results.

It is also important to note that the directors's council does not lead the enterprise, its only task is to evaluate realistically the leadership of the enterprise and the results achieved. The evaluation should start from the results achieved in the long term and from changes in property.

In the practice of the enterprise leadership and guidance mechanism it must be regarded as natural that various interests will be manifested, that there may be clashes at the regional, trade or national level between worker interests and the representatives of management, the institutions representing strategic ownership (the enterprise council), or those representing state regulation or authoritative prescriptions. A separate more detailed study would be required that these contradictions might be resolved in such a system and in such a way as finally to serve the social interests also.

FOOTNOTES

1. The author intends to describe the changing economic guidance tasks of the socialist state in a separate study.
2. In what follows I will often talk about capital, capital regrouping and capital acquisition instead of production factors, but I always mean by this the total value of the production factors expressed in money. I use the expression capital only for the sake of simplicity and not as private property or the bearer of private expropriation in the Marxist sense.
3. The Soviet economist Nazarov proves by means of an industrial example that organizational and technical measures provide the larger part (62 percent in his example) of the increase in work productivity (9). According to data of the Ministry of Industry in a few cases foreign organizers have been employed and in the wake of their work the productivity of work has increased 20-74 percent. According to Japanese data introducing new products contributed 30 percent and organization contributed 70 percent to achieving the present competitiveness. In Japanese industry 2 percent of the workers move material; here 22 percent do (8).
4. Both socialist and capitalist usage can have a different content. In this study by the expression 'director's council' I mean a body--to be described below--which (disregarding the legal framework) is independent of the collective, the enterprise leadership and state administration. One could dispute this designation. We might call it an enterprise council or something else.

By supervisory committee I always mean a supervisory body, although I know that in Austria and the FRG the supervisory committees perform the tasks of the body I am calling the director's council.

By directorate I mean the leadership of the enterprise (management).

Unfortunately, because of the extent of the study--and my limited information--I am not able to deal with leadership and guidance of enterprises, units or warehouses within a trust (or enterprise).

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8984

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PRODUCERS VIEW PROBLEMS WITH TELEPHONE NETWORK

Budapest MUSZAKI ELET in Hungarian No 20, 27 Sep 84 p 1

[Article by Tamas Kolossa: "Line Problems: Concerning the Telephones, In The Eyes of the Manufacturers"]

[Text] This is not the first time we have published articles about the status, problems and tasks connected with telecommunications--and especially the telephone therein. Putting it on the agenda again is justified by the fact that the theme has been discussed recently by several significant forums--from the industry and the construction and transportation committees of the National Assembly to the State Planning Committee. We can read in the following and in the selections on pages 8 and 9 of our paper studies not only from the viewpoint of industry and the Post Office but also about examples from abroad and about a few possibilities for development.

The tale of the pike caught by the fox came to mind in regard to the situation which now characterizes the relationship of the Post Office and the manufacturers in the telephone matter. The production of the domestic telecommunications industry has increased at a swift pace in recent years. This development was made possible primarily by the growth in socialist and capitalist export. But export interest does not always help domestic supply--say those involved. The situation, however, is even more complicated than this--as it is so often.

One of the biggest shippers to the Post Office, the BHC [Beloianisz Signal Technology Factory] makes switching equipment and telephone exchanges. There was a time when one of the actions of the BHC was mentioned as a school example of how not to buy a license. The crossbar exchanges were involved.... The license was purchased in 1968, manufacture began in 1971, and by the end of 1984 a total of 1.3 million lines had been built with this technology. So the truth is that without the much debated action the level of the domestic telephone network would not have reached even the present, low magnitude.

When the Expensive is Cheaper

The long range ideas of the Post Office and those of industry went their separate ways since the beginning of the 1970's. At that time the traditional rotary exchange was still cheaper, so it was futile to manufacture the more

modern, high performance crossbar; the customer still preferred the former. It is a fact that even then the Post Office did not have a lot which it could turn to investment. So the BHC, and the others, turned toward the export markets. In 1974 they manufactured 14,000 lines for domestic use and 25,000 for foreign use. This trend can be followed from the production data up to 1977, when a turn took place. Domestic purchases increased significantly within the framework of a developmental program; new types, the container exchanges, appeared too. In 1979 about 100,000 lines were built within our borders, while export remained at the original level. In the interest of expanding capacity the BHC had already built a new factory in Debrecen (the credit burdens of which will fall due in the future). But the stressed development program was finished in 1980; the Sixth 5-Year Plan contains the creation of 170,000 main exchange stations.

The quantitative increase between 1977 and 1980 was only apparent, was significant only in comparison to what had come before and to what we see now, for today the quantity is just as much a weak point of the telephone network as the quality. The latter factor was forced into the background as a result of the program of that time, so today not only are there few telephones but, because of putting off the reconstruction, the use value of the existing network is low too. This is why--among other things--they have built special networks used in a closed circle. While the ratio of subscribers connected into the national long-distance network is around 30 percent, the OVh [National Water Management Office], the OKGT [National Petroleum and Gas Industry Trust], the MAV [Hungarian State Railways] and others have established completely automated national networks so that they can do their work efficiently.

Why cannot the same thing be done in the national base network? Is it really the profit and export orientation of the industrial enterprises which is holding back development?

"The magnitude of the domestic sales of the BHC is not influenced primarily by profit or export interest," says Dr Peter Eisler, technical deputy director of the enterprise, "but rather by the most limited demand of the Post Office. We expanded our capacity to such an extent that I need not exaggerate, we could deliver domestically double the present quantity. If the Post Office had the money we could change to a great extent the present proportions of roughly half and half of foreign and domestic marketing. It is characteristic that we have not raised our prices since 1979 in regard to the Post Office. This does not suggest a desire for profit, nor does this drive us toward the export markets. It is a fact that in some cases, because of the export which increased in significance in this manner, orders by the Post Office may get forced into the background, primarily in the area of installation on especially unexpected occasions. But this is an effect which we cannot ignore without risking our foreign positions. Unfortunately it is well known that the Post Office never had a lot for investment, in non-obligated funds, and even the existing demand is poorly scheduled and capricious, and it may appear from this that industry is not flexible enough. The swift increase in construction costs probably makes the situation of the Post Office even more difficult. When setting up a telephone exchange, for example, the mechanical equipment represents only 25-30 percent of the cost. It is to be hoped that the spread

of electronic equipment, which does not require a special building, will resolve this tension also."

Without Compulsion

What is your opinion about the proposal according to which deliveries to the Post Office should be given the same priority as capitalist export?

"I would be the greatest believer in it, for if we cannot carry through the developments of the BHG now under discussion then, according to our calculations, the Post Office will be forced to resort to gigantic capitalist import later, worth several hundred million dollars. But the same priority cannot be forced with administrative tools, the solution can only have a financial character. Not even to speak of the fact that by neglecting external markets millions of dollars might slip out of our hands, and the consequences of this could be serious too.

"Other proposals speak of making the telephone network economically independent or, just the contrary, of joint guidance of the telecommunications industry and telecommunications.

"There is a debate about whether the traditional postal services should be separated from one another, that is telecommunications. There is an ever stronger tendency abroad for the deficit services to be kept in state hands, and give the profitable telecommunications to entrepreneurs. This would facilitate a clear picture too. Under domestic conditions, lacking more precise information, it is difficult to take a position. There is not much sense in joint guidance, the domestic users, for example, tie up only one-third of the capacity of our factory and this can be said, according to my information, about the other signal technology enterprises also. So the joint guiding organization could not have a say about the major part of the production. Microelectronics will probably invade the area of traditional postal services too; this could improve the economicalness of the traditional services, shifting them to electronic paths, to communications."

If There Is No Money...

Economy. In regard to the present state of the telephone network it may appear that the Post Office has no money. This could be true overall, but it should be recognized that the losses of the traditional postal services take away the profit of the telephone service. Because the telephone is profitable--and to no small degree. In 1977, when we could still telephone for an unlimited time for one forint, the profitability was above 30 percent. This would be to the credit of even an industrial enterprise.

The total industrial picture includes the fact that today and in the next 5-year plan the biggest problem is caused not by the shortage of switching equipment but rather by the shortage of transmission technology devices and communications cables. They are trying to solve this by buying licenses and with material support for cable manufacture. But the delay is significant. An example of this is the request for bids issued by the BHG, the Post Office and Budavox 3 years ago, in which they indicated an intent to buy digital

telephone exchanges or they would take over a license. There is still no decision in the matter, although introducing such exchanges is ever more urgent. And not simply because of economy. Thanks to smaller space requirements, reliability and greater capacity the digital telephone exchanges promise significant investment savings. What is more important, however, is that this equipment constitutes the basis for introducing integrated, full range new services, switching the traditional services to the path of modern electronics. Prediction is not an economic category but in this case it is worthy of note that if we remain below the level of the telephone network of the surrounding world, if a communications gap arises between the domestic and foreign economic and other partners, then all of society will experience the damage caused by this.

8984

CSO: 2500/90

REORGANIZATION, LARGER ROLE SEEN FOR ECONOMIC CHAMBER

Belgrade BORBA in Serbo-Croatian 15 Nov 84 p 7

[Excerpt] The Economic Chamber of Yugoslavia [PKJ: Privredna Komora Jugoslavije] must fight to take the initiative in relations with other institutions and to bring a balanced position to decision-making on the most important economic solutions. It is now in the position of constantly waiting for outside solutions and expressing itself today on something someone decided on yesterday. It is not so important whether the chamber is an appendage of the state, both whether and when it can become an equal and influential factor in our system of decision-making. These judgments made by LCY CC Presidium member Jure Bilic at the 14 November meeting with leaders of the Economic Chamber and the general assessments on realizing the conclusions of the 13th and 14th meetings of the LCY CC adequately point in the direction of changes in the work of the entire chamber system. Nikola Stojanovic, Ivan Stambolic, and Miljan Radovic were also present at the meeting of the working group of the LCY CC Presidium.

Emin Dobardzic, president of the presidency of the PKJ, stressed that realizing the long-term program of economic stabilization requires big changes in the work and organization of the entire chamber mechanism, from the basic chambers to the PKJ. The federal chamber is now composed of 212 different bodies with 4,891 delegates from the entire country. In addition there are 18 specialized associations with work communities: these few facts, he said, show how inflated the organization has become.

Similar solutions also are reached in the republic, provincial, and regional [economic] chambers. Instead of such a powerful organization acting to promote work and business, its efforts are spent in resolving everyday problems of work organizations. No one underestimates the importance and urgency of these current problems but chambers do not exist for this purpose, yet by the force of circumstances they have been changed into para-state institutions.

Dobardzic said that the PKJ very often expends its efforts on very sensitive problems about which someone else decides.

In regard to this assessment, Ivan Stambolic noted that the PKJ "had been led" into the terrain of current, daily, and practical actions, ...thus into a situation in which it covers the measures of state organs with its decisions.

Stambolic said that a statement to the effect that the PKJ had given an opinion on some question very often calms the conscience of the bureaucracy although it is clear that this is not the view of associated labor.

In our economy, Stambolic said, we need a Chamber which will not exhaust itself in everyday matters but will gather together the best known business people and scientists and give consideration to the development of this country. In his opinion, we have no better organizational form through which to realize a unified strategy for the country, along with strong scientific forces; without such a vision of the future there is little integration of the economy. He said that at present more than one-half of the work organizations in Yugoslavia have not yet started work on enacting medium-term development plans. This is an area in which the PKJ, differently set up, could come to fuller expression.

CSO: 2800/112

ASSEMBLY CHAMBER DISCUSSES LAW ON FOREIGN INVESTMENTS

LD271808 Belgrade TANJUG Domestic Service in Serbo-Croatian 1349 GMT 27 Nov 84

[Text] Belgrade, 27 Nov (TANJUG)--Rade Pavlovic, chairman of the Federal Committee for Energy and Industry, spoke at the session of the Chamber of Republics and Provinces of the SFRY Assembly today about the proposed law on changes to the law on investments by foreign persons in Yugoslav associated labor organizations.

First he recalled that the volume of foreign investments on the basis of joint investments was almost negligible and that the situation in this sphere is unsatisfactory.

He illustrated this with very precise facts. In the past 5 years, such resources accounted for all of 0.6 percent of total payments for investments in the economy. In a little more than 16 years since the possibility of investments by foreign persons has been created, a total of 178 agreements have been concluded. The total investments by foreign and Yugoslav partners according to all agreements amounts to 67 million dinars, and investments by foreigners account for 16 million or 23.8 percent.

Pavlovic emphasized that since 1978, when the currently valid law was adopted, foreign partners' interest in joint investments has been falling off. From 1968 to 1978, an average of 15 agreements were concluded annually, but since 1978 the average has dropped to 11. The chairman of the Federal Committee for Energy and Industry noted that such an unfavorable trend is caused by the general economic situation in the world, which has not favored the free circulation of capital, economic instability at home, and also the restrictiveness of the current law.

The application of the new law is a result of the idea that it is economically more correct to aim at joint investments than to constantly enter into credit arrangements, which today have become very unfavorable in particular.

There are many advantages to this. Transfer of technology into our economy takes place, Yugoslav exports are helped, and joint investments have a favorable effect on reducing our indebtedness and contribute to closer linking between the Yugoslav market and the world.

Rade Pavlovic explained that this was the reason for the numerous proposed changes in the existing law, but that no single constitutional principle about self-management associated labor is being brought into question.

Speaking about the content of the new solutions, Pavlovic emphasized the special significance of the introduction of "the remainder of net income from joint economic activity" which would in its material content be almost identical to the category of profit, but would be the synthesized expression of the economic motive of foreign persons to invest capital in the Yugoslav economy.

Due attention is paid to defining joint risk. The return of investments and the level of payment for the use of the resources invested in economic activity may be guaranteed solely by joint business results and by nothing else. Therefore not even a foreign person's profit can be limited in advance.

In relation to results achieved in a joint business undertaking a foreign person is guaranteed a return of the real value of investment, and the "49:51" formula which required Yugoslav organizations to invest at least 50 percent of their own resources in every arrangement is eliminated.

Rade Pavlovic then explained why the elimination of the lower level for foreign capital investments has been proposed. The maintenance of this limit would have eliminated the possibility of smaller amounts of capital, which are very often needed by the economy, coming into the country.

In the changes to the law, special attention was devoted to the joint organ of business activity. The essence of provisions in that organ is that by attracting foreign capital one also attracts the foreign person and involves him in the process of economic activity. Together with the Yugoslav organization the foreigner will directly participate in expert and managerial conduct of the realization of a joint business undertaking.

The aim was also the maximum simplification and shortening of the procedure for approving agreements on joint investments, but it is obligatory, Pavlovic emphasized, that every agreement should be in accordance with our plan and Yugoslavia's technological development strategy.

As Rade Pavlovic said, these are the essential changes, although there are also some others. For example, the introduction of norms for current work is set out, and some obligations and outgoings from income to satisfy joint and general social needs not connected with the joint investment are reduced. The possibility of a foreigner having the right to inspect the books of a Yugoslav organization is also envisaged, as well as a provision that current economic policy measures should not change the conditions set out in the agreement on joint investment and so forth. The possibility of concluding agreements on investments by foreigners in the sphere of health and recreation services is also new.

BRIEFS

AID TO UNDERDEVELOPED--In the 3 and 1/2 years of the current 5-year plan over 400 self-management agreements for joint investment in less developed areas of the country have been signed. The initial estimate of the value of these programs is 200 billion dinars, including 50 billion dinars, or 25 percent, of federal funds earmarked for pooling. One-half of the agreements represent new investments while a small part of them are programs for reconstruction and modernization of existing economic facilities. Investments in industry account for 70 percent, in agriculture 20 percent, and in other sectors 10 percent of the total funds. Most of the projects are being constructed in more developed opstinas (60 percent), while 30 percent are being built in less developed opstinas, and only 10 percent in undeveloped opstinas. Over 50 percent of the joint investments are based on credits. According to the plan, 80 billion dinars should have been pooled in 3 and 1/2 years, but only 50 billion dinars have actually been pooled. Up to now 100 of the planned projects have been completed, 200 are being completed, and 116 are in preliminary construction. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 17-19 Nov 84 p 10]

ELECTRIC POWER PRODUCTION--In the first 10 months of this year 53.6 billion kWh of electric power were produced which is on the planned level and 9.4 percent more than in the same period last year. All electric power plants, except those fired by mazut, have operated very well. Thermal electric plants based on coal increased production 12.7 percent and produced 27.8 billion kWh, hydro-electric plants increased production 10.6 percent and produced 20.9 billion kWh, while the nuclear power plant increased production 21 percent and produced 3.4 billion kWh. One of the reasons thermal electric plants based on mazut produced only 1.4 billion kWh or one-half of the planned amount was to conserve the little mazut which is available. In this period 51.8 billion kWh of electric power was consumed, or 6.2 percent more than last year and 4 percent less than planned. Run-of-the-river power plants produced 22.5 billion kWh or 20 percent above plan and 34 percent more than last year. [Excerpt] [Belgrade POLITIKA in Serbo-Croatian 12 Nov 84 p 28]

BOSNIAN NUCLEAR POWER PLANT--Bosnia-Hercegovina has started intensive preparations for building an atomic power plant. The decision has been made in the highest republic organs and the work and money included in the 1983-1990 program for building electric power projects. The commission for nuclear energy in the republic executive council urges that a preliminary investment documentation and a study on possible locations for the plant be made. It is estimated that about 3.85 billion dinars will be needed for preparations to build the first such

plant in this republic, based on March 1984 prices. It is expected that the plant will probably have an installed generating capacity of about 500 megawatts and would perhaps be built in cooperation with another republic. By the beginning of next year the Institute for the Electric Power Economy of Bosnia-Herzegovina will work out a detailed preparatory program. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 20 Nov 84 p 4]

OPPOSITION TO OOURs--The battle for socioeconomic stabilization requires more effective functioning of the political system. But recently there have been manifestations and support for essential changes in the system, and often also certain changes of the system. This was said in the introductory statement by Nemanja Jovanovic, member of the Presidium of the Governing Council of the Trade Unions of Vojvodina at a recent meeting of this council devoted to realizing the role of the Trade Union Federation within the SAWP. Jovanovic said that there were especially attacks on the delegate system and on associated labor organized on the basis of the Constitution and the Law on Associated Labor. The "bone in the throat" in all this is in many cases the OOURs (basic organizations of associated labor). All this calls forth confusion and lack of clarity among workers and working people, especially since at the 10th meeting of the LCY CC it was clearly established that critical analyses and discussions must be based on the judgments of the 12th LCY Congress and on the orientations established in the Constitution. He added that when one considers concrete behavior in a number of work organizations in which there have been uncritical elimination of OOURs and a strengthening of techno-bureaucratic forces, we can rightly speak about the serious attempt to challenge the basic orientations of our system. In the discussion delegates said that all attacks on OOURs will be most energetically opposed and the faster elimination of weaknesses in the forming and work of OOURs will be demanded. The role of the Trade Union Federation in this is to create conditions for the further development and promotion of the political system and its institutions. In concrete actions the trade union organizations must see that the SAWP is the place for connecting the interests of workers and other working people and citizens. [Excerpt] [Belgrade BORBA in Serbo-Croatian 15 Nov 84 p 7]

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